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Canada. Royal commission on co-operatives
Proceedings, v. 10-11, 1945.

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XVII

(ROYAL COMMISSION
ON
CO-OPERATIVES)

1945

PROCEEDINGS
(OFFICIAL REPORT)

VOLUME No. X

PLACE Quebec City, Que.,

DATE February 26, 27, 1945

PAGES 3442 - 3662

Oct 27 1945
Mr. Vaughan



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OFFICIAL REPORTER

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ROYAL COMMISSION ON CO-OPERATIVES

i.

Quebec City, February 26, 27, 1945.

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ROYAL COMMISSION ON CO-OPERATIVES

iii.

Quebec City, February 26, 27, 1945

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ROYAL COMMISSION ON CO-OPERATIVES

The Commission appointed to inquire into the present position of cooperatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative position of persons engaged in business directly competitive therewith, met in Quebec City, on Monday, February 26, 1945, with sittings continuing on February 27.

PRESENT:

The Hon. Mr. Justice Errol M. McDOUGALL, Chairman

B. N. ARNASON)
J. H. LADEAU (
J. J. VAUGHAN) Commissioners

Eugene T. Parker, K.C. Counsel
Roger Brossard, K.C. Associate Counsel

Major H. D. Woods)
J. A. Chapdelaine) Associate Registrars

Colonel G. W. Ross Executive Secretary

APPEARANCES:

Senator Cyrille Vaillancourt	Federation des Caisses Populaires Desjardins
Rev. Father G. H. Levesque, O.P.	Superior Council of Co- operation for the Province of Quebec
Gerard LaCroix	Quebec Chamber of Commerce
Guy Hudon	Federation des Caisses Populaires
Leroy Poulin	Syndicat d'Initiatives Rurales

QUEBEC, QUE.,
Monday, February 20, 1945

The Commission resumed at 10 a.m., His Honour Judge McDougall presiding.

THE CHAIRMAN: It is appropriate to first clearly indicate the aims of the Royal Commission of Inquiry on Co-operatives. According to the terms of an order-in-council, P.C. 8725 of November 16th, 1944, we are instructed to inquire into:

- (a) the present position of co-operatives in the matter of the application thereto of the Income War Tax Act and the Excess Profits Tax Act, 1940, and
- (b) the organization and business methods and operations of the said co-operatives as well as any other matters relevant to the question of the application of income and profits tax measures thereto, and
- (c) the comparative position in relation to taxation under the said Acts of persons engaged in any line of business in direct competition with co-operatives,

and report, in so far as the same can conveniently be done, all facts which appear to them to be pertinent for determining what would, in the public interest, constitute a just, fair and equitable basis for the application of the Income War Tax Act and The Excess Profits Tax Act, 1940, to co-operatives and to persons other than co-operatives in respect of methods of doing business analagous to co-operative methods, such as the making of payments commonly called patronage dividends and to make such recommendations for the amendment of existing laws as they consider to be justified in the public interest.

In order to facilitate effectively the work of the Commission, it is essential to adhere strictly to the matters specified in the order in council I have just mentioned. I am sure the lawyers who will appear before the Commission will be willing to give us their full co-operation.

It is not necessary for me to say that it is not our mandate to scrutinize any particular matter. We are not called upon either to establish rules concerning taxes to be paid by any persons, societies, associations or organizations whatsoever. Our duty is solely to gather facts that will permit us, I hope, to make as specific a report as possible leaving to the appropriate authorities the responsibility of carrying out the recommendations that we shall deem proper to make.

The briefs submitted have been recorded in the order they were received. As far as possible we should stick to that order. We are now ready to hear those who want to appear before the Commission.

The lawyers and interested persons themselves will be kind enough to record their presence and to make all observations or demands that they deem appropriate.

THE CHAIRMAN: Mr. Brossard, we should perhaps first record the names of the persons present.

MR. BROSSARD, K.C: I understand the Conseil Supérieur de la Coopération (the Superior Council of Cooperation) is represented by Rev. Father Levesque; the Chambre de Commerce by Mr. Gerard Lacroix; the Federation des Caisses Populaires by Mr. Guy Hudon; the Syndicat d'Initiatives Rurales by Mr. Leroy Poulin; the Chambre de Commerce of the province of Quebec has proposed the adjournment to Ottawa. I do not know if they are here this morning. Now, with the consent of the interested persons, we might begin, with your pleasure,

with the brief of the Fédération des Caisses Populaire Desjardins.

THE CHAIRMAN: I should inform you that our colleague, Mr. Elliott, is ill to-day. He was ordered to stay in by his doctor; that is the reason of his absence.

CAISSES POPULAIRES DESJARDINS or CREDIT UNIONS
AND TAXATION

HONOURABLE SENATOR BRILLE VAILLANCOURT

being sworn on the Holy Evangelists, deposes:

BY MR. BROSSARD:

Q. Will you read your brief? A. Yes.

1. ORIGIN AND DEVELOPMENT:

"The co-operative savings and credit movement originated in America in the town of Levis, on the 6th of December, 1900. Commander Alphonse Desjardins was the founder. Those Caisses Populaires Desjardins are an adaptation of the savings and credit unions established some years before in Germany by Raiffeisen. At the present time there are 900 caisses populaires in the province of Quebec with assets of one hundred million dollars. All the other provinces also have caisses populaires; they are called "Credit Unions". There are over 1000 in the other eight provinces. Each province has its own law governing the caisses populaires and "Credit Unions". These statutes are somewhat identical.

2. AIM OF THE CAISSES POPULAIRES DESJARDINS OR CREDIT UNIONS.

"These cooperative savings and credit organizations play a fundamental part in the economic life of the working classes. As the caisses populaires Desjardins have been

established long before the credit unions, those caisses play such an important part in the economic life of Quebec that their elimination would be a mortal blow to the economy of the farming and working classes. These institutions inculcate in their members a spirit of initiative and thrift which no other organization can impart. The suppression of those cooperatives would bring back usurers (although they are not all gone) who would exploit the working classes with an unsuspected intensity. The part played by our credit unions is vital, not only because they develop the habit of thrift, but also because they train citizens in whom is instilled the sense of personal effort, of individual and social responsibility, of mutual aid and of respect of obligations assumed.

3. ATTITUDE TO TAKE

Our politicians should do all in their power to encourage the development of those popular institutions. It would, in our opinion, be against public interest to do anything to impair their expansion, restrict their services or diminish their activities.

The Dominion and provincial governments will understand that they should give our caisses populaires Desjardins and credit unions their valuable protection, since popular savings and credit are of public interest. They will encourage them in a thousand ways in order to develop them, to assure their growth and expansion and shall pass no legislation that might hamper their development and be harmful to them.

4. NATURE OF THE CAISSES

The Caisses Populaires Desjardins and Credit Unions are associations of persons endeavouring not to grow wealthy at the expenses of others, but to mutually help each other by the pooling of their savings and by the use of those savings by

the members who need them.

To belong to a Caisse Populaire Desjardins or Credit Union as a savings depositor or a borrower, you must be a member. Therefore these Caisses Populaires Desjardins or Credit Unions are essentially cooperatives.

In 1930, when the amendment to the Income Tax Act was adopted, an act that exempted from income tax the Caisses Populaires, the Honourable Mr. Euler, then Minister of Revenue, declared that the members of these organizations (the Caisses Populaires Desjardins or Credit Unions) put their savings together with a single aim in their minds, i.e. to loan their savings to each other. It is entirely a cooperative institution. (Hansard, 1930, page 2644.)

The Caisses Populaires Desjardins or Credit Unions are cooperative societies of savings and credit with variable membership and capital and limited liability. The relations existing between the members and the society are relations of "service to consumer" and not relations of a "profit to invested and risky capital." It is essential that this difference be kept in mind because it sets forth the distinctive mark between the cooperative enterprise and the capitalist enterprise. These two types of organizations cannot be compared. The first, cooperative, is an association of persons utilizing capital as an instrument to serve persons. The second, capitalist, is an association of capital giving priority to capital and not to persons and which remunerates not in accordance with merit or rendered services, but in accordance with the sum of capital held. As one can note, the objectives of the two types of organizations are quite different: in the capitalist organization, it is profit, and in the cooperative organization, it is service.

This distinction is absolutely necessary when taxation of these types of organizations is studied. To tax profit consists in a deduction from the revenues of the enterprise whereas to tax service consists in taxing self-sacrifices. We say that taxation of our caisses populaires Desjardins or credit unions is a tax on self-sacrifices. In our Caisses Populaires Desjardins or Credit Unions, no director, no member of the credit commission or supervisory board can receive a salary. Only the manager and the ordinary employees can be remunerated. In taxing our Caisses Populaires Desjardins or Credit Unions, the self-sacrifices of people are taxed and if we have reached that point, I fear very much for the world of to-morrow. We seek no favour. There is nothing to stop the directors of capitalist organizations from working gratuitously also. If that were to happen, many grievances would disappear. We want the same justice for the others as well as for ourselves.

In our Caisses Populaires Desjardins or Credit Unions or any other cooperative institution, the ordinary words and terms have been used. As much as possible cooperative terms have been adopted, but unfortunately, the capitalist institutions with their own language have distorted its meaning by an interpretation in accordance with their conception. That given meaning inevitably creates a confusion, which makes it difficult for certain persons to understand the difference existing between the cooperative and the capitalist economy.

There is also a state economy which is tax exempt too, precisely because it is formed by all the citizens who benefit by its services. Why then should it be otherwise in the cooperative economy where it is the members who receive the advantages? With the capitalist economy, on the contrary, the advantages are reserved to a few people who invest capital

trying to get the most out of it: advantages for a few and sometimes at the expense of a greater number of people.

3. SITUATION OF THE CAISSES IN THE MATTER OF TAXATION:

Our Caisses Populaires Desjardins or Credit Unions deal with their members as we already said. The members can do two kinds of transactions with their society: bring in their savings as deposits in membership shares or in the savings department, and borrow.

The member-depositors loan to the member-borrowers through their institution. Example: Somebody with only \$100 to dispose of would not be interested to loan that sum in sums of \$10 or \$25 at a time. Besides, that \$100 would be a drop of water in the bucket, whereas ten members, each of them having \$100, could loan \$1,000 to help efficaciously one of their own group. What is impossible to one alone become possible when ten persons get together. They entrust their savings to one of their group who represents them all; furthermore, as their employee, he has the responsibility to loan that money and to collect the remittances.

The borrower pays a certain rate of interest to remunerate the services of that employee and at the same time pays interest on the borrowed capital. The rate adopted on loans is the usual rate, but at the end of the year, the interest is brought back to cost. So, the excess difference between the interest paid by the member-borrower and the interest received by the member-depositor or lender is determined by the organization itself in relation:

1. to the formation of a necessary reserve as prescribed by the cooperative laws as a safeguard against possible losses;
2. to the payment of the administration costs reduced to a minimum because of all the officers only the manager can be salaried;

3. to the payment of a reasonable rate of interest on the membership shares with which is linked the financial liability of the society.

If there is an excess or surplus-savings, after provision is made for the payment of interest on savings deposits, administration expenses, for the reserve, for the payment of a bonus on the membership shares, the surplus-savings, by an institutional obligation, are distributed to the borrowers, not in proportion to their paid capital but in proportion to their loans, because those surplus-savings come from interest overpaid by the borrowers.

The society makes no profit from its operations, because by the patronage dividend, it restores the operations to their cost level. There can be no question of subjecting it to the income tax as paid by capitalist organizations which make profits on transactions with the public and pay the income tax on their net profits out of an increase in the price of goods sold to the consumers.

We must insist upon the difference between the dividend and the bonus. In an ordinary capitalist organization, the dividend is based on profits made whereas the bonus is a limited interest paid on savings-capital. The bonus is different from interest on savings deposits because it remunerates that part of savings deposited for a long term and called membership capital. The membership capital assures the stability of the society and permits the Caisse Populaire Desjardins or Credit Union to make long term loans.

However, the capital in our Caisses Populaires Desjardins or Credit Unions can be withdrawn as a savings deposit, and so that this capital be and remain stable, an entrance fee of 10, 20, 30 or 40 cents is paid on each \$5 share. If the member

withdraws his capital, the entrance fees not reimbursed: this is an invitation to the member to leave his capital as long as possible. That is why a bonus, a little higher than the rate of interest on ordinary savings, is paid on the capital, considering that the amount deposited is higher than in a savings deposit because of the entrance fee. In reality, the member deposits \$5.10 for a \$5 share.

The capital of a capitalist organization cannot be withdrawn that way. The shares can be sold or transferred to another person. They are subject to the fluctuations, rises and falls, of the stock market. In our cooperative organizations of Caisses Populaires Desjardins or Credit Unions, the value of a share remains the same. No matter if the volume of business is large or small, if the profits are large or small, every \$5 share is always worth the same \$5 and the rate of interest is always limited.

6. WHY THE CAISSES POPULAIRES DESJARDINS OR CREDIT UNIONS CANNOT BE TAXED:

The capitalist organizations complain about cooperatives by stating that the profits of these institutions should be taxed the same as theirs. The cooperative institution conducts its business on the basis of the market price and that precisely avoids ruinous competition with the other organizations which charge a higher price than the cost price and thus make profits on transactions with their customers. If the cooperative institution operated solely on a cost price basis, this would prove disastrous for all the capitalist organizations which could no longer live. To avoid that ruinous competition, the cooperative organization deals at the market price, but its services are reduced to cost afterwards by the patronage dividend.

In the cooperative excess profits at the end of the

year are remitted to the members. Now the members already pay the income tax on their incomes. To tax the profits of cooperatives would constitute a double tax on their members on the savings made thanks to their cooperatives.

This category of consumers, the cooperators, would thus be subjected to double taxation.

On the other hand, the capitalist enterprise pays its tax on profits out of an overcharge to the consumer; after all, the tax is not paid by the owner of the capital in the enterprise, but it is the consumer who really pays the tax on the profits of the capitalist institutions.

Let us give an example: Ten persons need goods. They request one of their group to go to town to purchase the goods so as to avoid useless expenses and to save time, each one supplying \$10. At the return of the agent, the cost of the merchandise is figured at \$90 or \$9 for each of them, but he declares he cannot remit all of the one dollar due to each of the members of the group, claiming the government levies a 5, 10 or 20 per cent tax on that dollar. That is taxing a dollar unspent, a saving. That is nonsense, you would say? Well, that is precisely what is contemplated in seeking to tax the cooperatives.

MR. HUDON: May it please my friends and the Commission, I would like to examine a few witnesses.

THE CHAIRMAN: Are you going to examine the Senator?

MR. HUDON: Not for the present. He will be back after a while with the balance sheet of the "Caisse Centrale" and that of the "Federation". For the present, I wish to have a few witnesses heard respecting particular cases; a country caisse, a city caisse and a caisse in a settlement district, and then the Senator may resume his testimony in order to produce the balance sheet.

THE CHAIRMAN: Did you have an understanding with Mr. Brossard?

MR. BROSSARD: Yes, but I wish to ask a few preliminary questions.

BY MR. BROSSARD:

Q. This brief is being filed, with the Commission, on behalf of the Federation des Caisses Populaires Desjardins?

A. Yes.

Q. Is not this Federation a cooperative? A. Yes.

Q. In what sense? A. First, there are the local Caisse populaire, the unions regionales. There are ten unions regionales and these ten unions regionales form the Federation. It is a federation of cooperatives.

Q. Only, the Federation itself does not engage in any of the operations carried on by the local caisses? A. That is, it receives contributions by the Caisses populaires for propaganda and for inspection.

Q. Am I to infer that the Federation just about plays the part that the unions regionales play, with respect to the local caisses?

A. The unions regionales have nothing to do with the inspection.

BY THE CHAIRMAN:

Q. That is the case we heard in Montreal? A. Yes. The Union on the other hand receives savings.

BY MR. BROSSARD:

Q. Not from the depositors? A. No, from the caisses.

Q. Is it the Union that receives those funds or the Caisse centrale?

A. The Caisse centrale.

Q. What I am interested to know is the working of these

organizations, because the Federation des Caisses Populaires is a legal entity distinct from the Caisses regionales and the Caisses locales? A. Yes.

Q. What precisely are its relations with the unions regionales? A. It is the Federation of the Unions regionales. Each Union regionale appoints two representatives and these two delegates form the Federation. As there are ten Union regionales, there are twenty representatives of the Unions regionales. The Federation receives subsidies from the Government and contributions from the Union regionales, since the Unions themselves receive contributions from the Caisses locales -- for inspection and propaganda purposes. The Federation looks after inspections and propaganda in general, and the standardization of methods, but the Federation does not accept savings deposits, whilst the Unions regionales accept them. The latter are the union of the Caisses locales, while the Federation is the union of the Unions regionales. So, the Caisse regionale of each union -- all the Unions have not a caisse regionale though most of them have -- receive the surplus earnings of the caisses locales so as to spread those funds more uniformly through the district.

Q. Side by side with the caisses regionales there is an organization known as the Caisse centrale? A. Yes.

Q. With respect to the Federation, there is no similar organization? A. No.

Q. The sole resources of the Federation are the contributions from the Unions regionales and the subsidies paid to it by the Provincial Government? A. Yes.

Q. Are the subsidies paid by the Provincial Government fixed subsidies? A. \$100 for each caisse up to 600 caisses, and \$50 for each caisse up to a maximum of 100

caisses; in other words, maximum subsidies of \$80,000 if there were 1000 caisses.

Q. What has been the total subsidy for the last few years?

A. About \$65,000 last year.

Q. This subsidy is paid by the Provincial Government for what purpose? A. For inspection, propaganda and expansion of caisses populaires.

Q. Inspection of the caisses locales? A. Yes.

Q. And the inspection of the caisses locales is done for what purpose? A. To ascertain if the regulations are being observed; and then the inspections are similar to those made in ordinary financial institutions.

BY THE CHAIRMAN:

Q. How is the inspection done? A. We have 18 or 19 inspectors.

Q. Who travel through the province? A. Yes; they travel through the province. They come to a caisse populaire, strike a balance sheet, see to it that the regulations are observed and notify the proper person if the books do not balance.

BY MR. BROSSARD:

Q. Whom do you notify? A. The directors of the caisse locale and the union regionale.

Q. Have you any authority whatever over the caisses locales?

A. We have no powers, we exercise no sanctions.

BY THE CHAIRMAN:

Q. Any disciplinary sanctions? A. No. But we have the power to have the law applied, for, if in a district, at a caisse populaire, the law is not observed, we have the right to call a general meeting and to say: "This is what is going on in your organization."

BY MR. BROSSARD:

Q. By virtue of what have you this permission? A. The permission must be obtained from the Government. If a caisse populaire refuses to be inspected, we may ask the Attorney General to have the caisse inspected and the Attorney General sends the Federation inspector. He will not employ any other. By adopting a different method, we obtain the same result.

Q. In other words, you act as representatives of the unions regionales who delegate to you their inspection powers, and, to a certain extent, you act as representatives of the Provincial Government to do the inspection of these institutions? Is that correct? A. That is correct.

Q. Your assets consist solely of the contributions you receive from the caisses regionales? A. From the caisses locales.

Q. From the unions regionales and the Government? A. Yes.

Q. The assets that come to you from the unions regionales are on what basis?

A. Each caisse is assessed one-tenth of one per cent of its total assets, which goes to the regionale and the regionale pays 50 per cent to the Federation.

Q. Fifty per cent of what it receives from the caisses?

A. Yes.

Q. We pay the inspectors salaries, maintain an information bureau; we have a review and we publish educational pamphlets.

Q. In any event, I understand that you will be recalled to give evidence after the representatives of the caisses locales have been heard and I will then ask you to produce the financial statement of the Federation to show what use is made of the sums the Federation receives from the Government and the regionales.

(The evidence of this witness is suspended)

EUGENE BEAUCHENE,

residing at Plessisville, being sworn on the Holy Evangelists,
deposes:

BY MR. HUDON:

Q. You are a farmer? A. Yes.

Q. Where do you live? A. At Plessisville.

Q. How long has your farm been the property of your family? A. My grandfather settled part of our farm in 1841. We still own that part of the farm, but it has been enlarged.

Q. For over a hundred years your family has lived at Plessisville and the farm settled by your grandfather is still your property plus subsequently acquired parcels? A. Yes.

Q. Have you any sons established with you? A. Yes, one is established in front of my property and the other one lives with me.

Q. With respect to municipal affairs, have you ever held any office? A. I was mayor of our municipality for twelve years and Warden of the County of Megantic in 1937.

Q. As to cooperative matters, have you taken part in the cooperative movement in Plessisville? A. I was a director of our caisse populaire for eight years, that is eight years immediately following its foundation. I was a director of our cooperative society during its first seven years. I have been a director of the society of the maple sugar producers of Quebec for the past four years; I am a member of our consumer cooperative, owner of a general store, and a member of our milk producers' cooperative.

Q. We will come back to the caisse populaire, the agricultural cooperative syndicate and maple sugar producers' cooperative, for more information. Before doing this, will you tell me in a few words what the situation was, in your district, before the foundation of the Caisse populaire?

A. Poverty caused us to organize; destitution was the motive.

Q. Can you illustrate? You speak of destitution?

A. We were getting three or four cents a pound for our beef; selling pork at five or six cents, eggs at 15 cents a dozen, butter at 16 cents, potatoes at 30 cents a bag, with the result that farming was a losing proposition in all lines.

Q. What happened then? A. We were wondering where this would lead us to. We decided to study the situation; with the help of our agronomist and a curate of the parish, we organized a study club to study our problems.

Q. In what year was the caisse founded? A. In 1934.

Q. You were among the first directors? A. Yes.

Q. At what rate could you borrow at that time?

A. We were being told the rate was 8 per cent and we were apprehensive.

Q. And now, at the Caisse populaire? A. At 5 per cent at the present time. We have the privilege of reimbursing by instalments, and every time a small amount is paid on account, interest stops on that amount.

Q. Is there still a bank branch office at Flessisville?

A. Certainly, the bank receives our caisse's deposits.

Q. And are securities required for borrowings at the Caisse populaire? A. Securities, guarantees or a mortgage.

Q. Even on the security of personal property or on the credit of the borrower? A. I do not understand.

Q. Do you require personal property as security?

A. On mortgage.

Q. When the borrower does not give a mortgage? A. On acknowledgment of debt.

Q. Give an example. What difference did it make for the members of the caisse populaire, with respect to fertilizers?

A. Formerly, before we organized the Caisse, fertilizer sold at \$16 a ton payable in May; the man that did not have the money paid \$17 (seventeen) on October 1st. Upon calculation this amounted to 15 per cent. For poor people this was too expensive.

Q. How many members did you have originally? A. 25 only.

Q. What was the subscribed and paid up capital?

A. \$125 of capital.

Q. To-day, how many members have you? A. 1962 members, with assets, at January 31st, 1945, of \$763,936.09.

Q. What has been the result of these savings, from the point of view of the labouring class of Plessisville?

A. At Plessisville, we have a certain number of workers, who own a few hundred dollars, but who always had to pay rent. Through the Caisse which purchased houses for resale to them with option to purchase, they have become owners, while paying a certain monthly rent.

Q. Is there a large working class at Plessisville?

A. The population of the village of Plessisville is about 3200.

Q. Who work mainly at what industry? A. At the Plessisville Foundry, the Fournier shoe manufacture and the maple products manufacture.

Q. And lately, you have a new foundation, the housing cooperative? A. A housing cooperative was formed recently, with 40 workers who dispose of a small capital and expect to build this coming summer, but who rely on the services of our Caisse populaire.

Q. After the foundation of the caisse, what was the next cooperative organization with which you had to do?

A. It was the agriculture cooperative, in 1937.

Q. What amount was subscribed? A. \$100; \$25 cash and

\$25 a year for three years.

Q. I understand that the subscription takes the form of a promise, of a note for \$100 payable \$25 yearly. Were the notes used by the Cooperative to obtain the funds necessary for its immediate operations? A. We gave notes as security to the Caisse and when we purchased the factory, we gave a mortgage on the factory to obtain the money, so that we paid cash.

Q. What was the result of the cash payment? A. It had the result of helping the vendor who wanted to settle elsewhere and, as for us, it left us without debt.

Q. What circumstances brought the founding of the agricultural cooperative? A. It was impossible to get satisfaction from the former owner of the butter factory. We supplied the cream and he did the rest alone; he looked after the distribution. We never knew what the cost of manufacture was. Those who were too insistent were told that it was none of their business. Then, on the question of the testing of the cream; for my part, my cream had tested 34 per cent of fat; then, it went down to 26, and, two weeks later, down to 22. I had my cream tested by a competent impartial man who stated that it tested 34. And so, I was out 14 per cent of butter fat. In these circumstances, we decided to form a cooperative, to build a butter factory, to look after our own affairs so as to know what was going on and what it could cost. Before building, we met the owner and told him of our intention. He decided to sell for \$10,000. We paid \$10,000, even though we were satisfied that it was worth \$7,000.

BY THE CHAIRMAN:

Q. Where did you get the funds? A. At the caisse populaire. Once organized for our own account, we hired three good butter makers, and the testing of our cream was

done by a man hired by the month, who was impartial to all and who gave us satisfaction, since the annoyance we experienced in the past disappeared.

BY MR. HUDON:

Q. Tell us something about the special cream?

A. The former owner sold a special cream to a man, in Quebec, and kept the surplus for himself. After we became owners, we graded the patrons' cream with the result that farmers became interested in taking care of their cream, so as to be paid according to its quality. And so, we kept on sending out special cream to the Quebec creamery and this has brought us \$2,000 a year; this has gone on for eight years, bring \$16,000. In a parish such as ours, that counts. Our farmers are being paid for the work they do.

Q. If I understand you correctly, the former grading was doubtful and any increase in value you never heard about?

A. No, we derived no benefit from it.

Q. Let us take another instance; were there increases in the price of your butter? A. Due to various causes. At that time, milk converted into butter brought us 60 cents a hundred pounds, during six months. For various causes milk brings us \$1.82.

Q. Your cooperative deals in milk and feed stuffs?

A. Yes.

Q. In 1941, the members of our cooperative decided to buy their own bran and shorts. The reason was that, in the industry, once in a while, bran and shorts were being brought which the cattle refused to eat. Others were being bought which the animals would eat but they did not fatten. Moreover, we were buying bags of feed which were supposed to weigh 98 pounds; I have bought some myself, which I weighed. After going into the matter, we discovered that,

there were 16 grades of barley and 8 grades of wheat and oats. We came to the conclusion that the feed we bought, and which the animals would not eat, was probably No. 16, and that the one they ate, but without profit, was No. 12, and that that was not what we required. And so, we built a grist mill. The plant cost us \$18,000. We buy our grains ourselves; and now, when we get feed of this kind, the cows produce milk, the hogs put on weight and the hens lay eggs.

Q. How many members did you start with? A. 52 members.

Q. What was the subscribed capital? A. \$5200.

Q. Were the subscription notes discounted again?

A. That is the time they were discounted; we withdrew \$1,300 in cash; this left us each with three \$25 notes which were discounted at the Caisse Populaire, as I have said.

As for the butter factory, at the end of 1938, after being in operation for two years, our cooperative numbered 92 members, representing \$9,200. Our butter factory was almost entirely paid for, less \$800, and the increase in revenue for the first year was \$2,892, apart from the \$2,000 received from the cream surplus. We were not in need of same, so we divided it among the 52 members of that first year, the highest distribution being \$155 and the smallest \$24. I need not say that after two years, after such a distribution, we did not miss the former owner.

Q. Was the distribution done according to the amount of products brought in by each? A. Yes, it brought us one cent per pound of fat. A farmer could keep back of his amount of butter fat and make the calculation himself.

Q. It was not done according to the capital but according to the cooperation afforded by each member? A. Yes.

Q. Do you refuse to admit any one in your cooperative?

A. No.

Q. It is like some companies whose shares sometimes are not for sale because they are too profitable? A. I say no. Each member is supposed to be accepted by our board of directors. If we believe that so and so wants to become a member as to be harmful, we may reject his application, but so far this has not happened.

BY THE CHAIRMAN:

Q. How could he harm you? A. By speaking against us, by saying all kinds of things. It has not happened at our place. It's the law that says this.

BY MR. HUDON:

Q. How many members have you at the present time?

A. Out of 140 farmers, 132 are members of our cooperative.

Q. To expedite matters, will you tell us something about the producers of maple sugar? First tell us about the former state of affairs and the present situation. A. Formerly, maple sugar was made without much ceremony, without exercising much care, especially when it was for sale to dealers.

Q. What did that business pay you? A. It yielded us, certain years, 3, 4 cents a pound; 50 to 60 cents a gallon, and the industry bought ungraded sugar, in other words, white sugar and black sugar brought the same price; and there were farmers who, since there was no grading, refrained from straining the syrup, because if you take off 10 or 12 pounds, you have 10 or 12 pounds less to sell.

Q. Did they not merely refrain from taking off anything, but did they not add something? A. Yes. First they started by adding white sugar, and then brown sugar; the reason is that white sugar sells at 50 per cent less than maple sugar.

Q. What is the date of the founding of the association of maple sugar producers? A. 1924.

Q. How many members were there at the outset?

A. Seventeen.

Q. What was the amount of the aggregate capital?

A. They each subscribed one \$10 share, payable \$1 a year.

Q. How many members are there to-day? A. More than three thousand.

Q. What are the wholesale prices paid to the members of the "Producteurs"? A. At the present time, we get from 25 to 29½ cents per pound of sugar, and from \$2.25 to \$2.50 per gallon of syrup, wholesale.

BY COMMISSIONER NADEAU:

Q. Do you deal with your members only? A. Yes, only.

BY THE CHAIRMAN:

Q. In your municipality, are non-members very numerous? A. Not in our municipality. In our municipality, out of 140 farmers, 132 are cooperators. We don't miss many from among the sugar producers.

BY MR. HUDON:

Q. You said that you were paid from 25 to 29½cents per pound of sugar and from \$2.25 to \$2.50 per gallon of syrup? A. Yes.

Q. Should the cost of bottling, packing and marketing be deducted from this? A. No. These operations are done at our Plessisville plant. The price I mentioned is the wholesale price.

Q. With respect to grading, what has been the result? A. To-day and since our association came into existence, our syrup is graded by a man paid by the Government, an impartial man who gives us each what is coming to him, and our society pays according to quality. Our farmers are satisfied with the results.

Q. As for production, has there been an increase or a

decrease? A. The improvement in the quality of the sugar has induced some farmers to buy more maple trees and deterred others from chopping down their maple groves.

Q. Now, when farmers are in need of temporary loans, to whom do they apply? A. To the Caisse populaire.

Q. From the financial statement of December 31, 1944, will you state what was the amount borrowed from the Caisse populaire? A. \$23,099.50.

BY THE CHAIRMAN:

Q. The amount borrowed? A. Our capital is not large; we receive the syrup at our Plessisville plant, we sell it, we borrow the money on part of the syrup, we make the first payment on the first of June. When the year's operations are over, when the money has been collected, we make a second payment.

BY COMMISSIONER NADEAU:

Q. Is the Maple Sugar Cooperative a member of the Caisse Populaire? A. Yes, our cooperatives are members of our Caisse, so is the agricultural cooperative.

Q. Are other corporations, such as the parish "fabriques" members of your Caisse? A. In our case, the "fabriques", the school board and the municipality.

Q. They are members of the Caisse populaire? A. Yes.

BY MR. BROSGARD:

Q. Is the population of Plessisville entirely a farming one, or is it semi-farming and semi-industrial?

A. Out of a population of 4,200, 1,050 are farmers and the balance live in the village.

Q. Are there industries in the village? A. Yes, the Plessisville Foundry, two hosiery mills, one shoe factory, the sugar producers, the flax producers.

Q. Were the 25 original members of the Caisse populaire exclusively farmers or were they recruited among the working class? A. Those who started the Caisse populaire were exclusively farmers. To-day, workers have come in with us.

Q. To-day there is an equal number of workers? A. There are more workmen.

Q. What about the other cooperatives, the agricultural cooperative, the flax producers' cooperative and the maple sugar cooperative? Are they composed exclusively of farmers? A. Yes.

Q. And now let us go back to the Caisse populaire. What was the capital with which you commenced operations?

A. 25 members with a \$5 share each; \$125.

Q. Did you borrow money at the start? A. We borrowed from the Caisse; loans were \$10 each to start with.

Q. I am not asking about your loans to members. Did the Caisse borrow money for its operations? A. You mean capital funds which the Caisse might have borrowed?

Q. Yes? A. No, the Caisse did not borrow any money.

Q. You started with \$125 and you grew gradually and fairly rapidly, since even in 1937 you made an advance of \$10,000 to the agricultural cooperative? A. Yes.

Q. Where did you get the money to make that advance of \$10,000? A. From the savings of our farmers and workmen.

Q. The paid-up capital and the savings? A. Yes.

Q. Did you receive those savings from your members? A. Always from the members of the Caisse; one cannot make a deposit without being a member.

Q. Do you make loans to other people than members? A. The Federation approves the purchase of bonds from religious institutions and corporations.

Q. You make loans to school commissions, religious institutions and certain municipalities? A. To our municipalities. Our municipalities are members of the Caisse; but before making a loan to outsiders through the purchase of bonds we ask the consent of the Federation. We do make such loans.

Q. I understand that you dispose of your funds in the following manner: through loans to your members, to individuals? A. Yes.

Q. In the second place: investments through bond purchases subject to the approval of whom? A. Of the Federation.

Q. Thirdly: loans to school, municipal and religious institutions? A. To ours only. We do not go outside our place unless the Federation gives its consent.

Q. Do you go outside your place? A. Yes, on condition consent is given.

Q. Has your cooperative ever made loans to people who did not have their main office or establishment within the limits of your territorial jurisdiction? A. Our jurisdiction is our parish.

Q. How does the application come from the Federation? A. We may ask the Federation for advice when our available funds reach \$4,000 or \$5,000.

Q. The Federation tells you how to invest the money? A. If we have found an investment, we ask its consent. If we do not find one we ask the Federation for advice.

BY MR. HUDON:

Q. Section 40 of the Act provides that cash may be loaned to members; secondly deposited in a bank or trust company, and, thirdly, invested in bonds. The enumeration is very restrictive.

THE CHAIRMAN: We want to know how it is done.

MR. HUDON: They are investments through bond purchases.

HON. SENATOR VAILLANCOURT: Bonds are negotiable, while an investment is for so many years and is not negotiable.

BY COMMISSIONER NADEAU:

Q. How much have you invested in bonds? A. \$458,276.00.

Q. How much have you loaned to your members? A. The cooperative, \$9,214; acknowledgment of debts: \$71,556.00.

BY MR. BROSSARD:

Q. Is this loan to members and cooperatives apart from the school commission? A. Yes. Mortgages, \$99,000.

BY COMMISSIONER NADEAU:

Q. Is the Union regionale by which you are controlled Quebec? A. Yes, Quebec city.

Q. Is there an affiliation contract between your Caisse and the Union regionale de Quebec? A. They work together.

Q. Have you a copy of the contract? A. I will bring it this afternoon.

MR. BROSSARD: I think that, as far as the Union regionale is concerned, it is the same thing again, it would be a statement of agreement; there is no contract. It requires the undertaking to comply with the by-laws of the Union regionale.

BY COMMISSIONER NADEAU:

Q. Do you loan on mortgages? A. Yes.

Q. To your members only? A. Only.

BY MR. BROSSARD:

Q. Is the amount of \$99,000 entered as mortgage loans an additional amount over and above the \$71,000 for acknowledgments of debt? A. Yes.

Q. And this amount of \$99,000 on mortgages was it loaned exclusively to individuals, or was it loaned to school or municipal institutions?

A. Partly to our workmen who are either building or buying a house and who ask to be financed by the Caisse.

Q. The greater part of that sum of \$99,000 which you had out on mortgage loans in January 1945 was loaned to workmen? A. Yes.

Q. Not to the farmers? A. No.

Q. As to the amount of \$71,000 mentioned by you and loaned on acknowledgments of debt, what would be the proportion loaned to farmers and the proportion loaned to workmen?

A. Only the manager can give you an answer.

Q. You have no idea? A. No; farmers do borrow more often than workmen on acknowledgments of debt, but I can give you no figures.

BY COMMISSIONER NADEAU:

Q. Have you any credit accounts at the Caisse centrale?

A. We do not owe anybody anything.

Q. Does the Caisse centrale owe you any funds you may have on deposit? A. We own \$3,000 worth of capital stock.

Q. Have you made any deposits with the Caisse centrale besides? A. We certainly did.

HON. SENATOR VAILLANCOURT: At December 31, they had \$52,212.74 on deposit with the Caisse centrale; and \$22,766 with the Banque Canadienne Nationale.

BY MR. BROSSARD:

Q. Would you please file a copy of this balance sheet?

A. Yes.

Q. Do you draw interest on your holdings of Caisse centrale shares? A. I think it is 5 per cent.

Q. On your deposits with the Caisse centrale? A. Same as with us.

Q. How much do you get? A. Two and a half interest on deposits.

Q. Is this a fixed or variable rate? A. It is paid quarterly, I suppose.

Q. Paid in instalments, but you are paid a fixed rate of interest on your deposits with the Caisse centrale?

A. It must be on the smallest amount during the year.

Q. Two and a half per cent on your smallest credit balance with the Caisse centrale? A. Yes.

Q. Now, on your stock, the interest you receive is at a fixed rate? A. 5 per cent a year.

Q. How much do you pay your members on their stock? A. 4 per cent.

Q. It is a fixed rate? A. Yes.

Q. Does it vary from year to year? A. No, it has not varied yet.

Q. It has been paid since the beginning of your Caisse? A. Yes.

Q. Four per cent to your members? A. Yes, on the capital stock.

Q. Besides the capital stock, have you paid anything on the shares proper? A. On the shares, no.

Q. You have however paid something else to members, to borrowers. Have you paid any interest to borrowers?

A. On savings, two per cent. For the last year, it has been one and a half.

Q. To those who bring their savings to your Caisse, to the depositors? A. Yes.

Q. As to borrowers, those who borrow from your Caisse, have you during all these years given back to them part of the interest they have paid to the Caisse made a refund? A. No.

Q. All your members do not have a savings account with the Caisse? A. Not all of them.

Q. Some of your members have nothing on deposit with

the Caisse? A. Perhaps in rare instances; in order to be a member one must own a share, one must pay \$5.

Q. Over and above that \$5 paid to the Caisse for their share of capital stock, are there not any shareholders who have no deposit with the Caisse? A. They may be borrowers.

Q. There are also a good many who do not owe anything because they have not borrowed anything. Are there any who are neither depositors nor borrowers? A. I don't see what can be the use of a fellow like that.

Q. I am asking you. A. There are none.

BY THE CHAIRMAN:

Q. You do not throw him out for that reason? A. If a man is neither depositor nor borrower, he need not be a member.

BY MR. BROSSARD:

Q. Have you any members who may have purchased one share of capital stock from the Caisse, one, two or three shares, and who, since they have been members of the Caisse, have never borrowed any money from the Caisse and never made any deposit with the Caisse? A. That might happen.

Q. Would there be any? A. You would have to call the manager to secure that information.

Q. Apparently, that situation might arise in a very few cases? A. Yes.

Q. Among your founders, are there not any who would have been interested in investing a small sum, but who thereafter would not have contracted any loans or experienced the need of making deposits? A. If there are any, they must be very few. I know of some members who belonged to it and left it; they have withdrawn their \$5 share, because they could not deal with us.

BY COMMISSIONER NADEAU:

Q. Do you take deposits from your members only?

A. You have to belong to the Caisse to deal with it, to make deposits.

Q. Do your depositors-members make cheques or drafts against their deposits? A. Yes, we can draw cheques on our deposits.

BY THE CHAIRMAN:

Q. Is that not a receipt rather than a cheque?

A. It is a cheque.

BY COMMISSIONER NADEAU:

Q. Do you make loans to other central Caisses than the Caisse centrale de Quebec? A. No.

BY MR. BROSSARD:

Q. I understood a moment ago that your Caisse had made advances to educational institutions, to school corporations located outside the territorial jurisdiction of your Caisse, the scope of the Federation activities? A. The loans made outside our parish were made with the approval of the Federation.

Q. I know, but did your Caisse locale make loans to school corporations and religious institutions located outside your territory? A. Yes.

Q. Would that represent a large percentage? I am not referring to the purchase of securities? A. I did not grasp the question; I would have answered sooner. No.

Q. Then, you did not make any loans against promissory notes or mortgages to institutions outside your territory? A. No.

Q. However, you purchased securities from institutions located outside your territory? A. Yes.

Q. Did you ever purchase the full amount of an issue, as far as you know? A. Never.

Q. You only bought blocks on the recommendation of the Federation? A. Yes.

Q. With regard to other cooperatives, the agricultural cooperative, the flax cooperative, the maple sugar cooperative, are they selling only the products of their members? A. Only one at a time, please; maple sugar producers and agricultural producers.

Q. Let us take first the maple sugar producers. Does the maple sugar producers cooperative sell only the sugar produced by its members? A. Yes.

Q. Exclusively? A. Yes.

Q. Are all the maple sugar producers members? A. Not necessarily. Those having 25 or 30 maple trees cannot belong to the association.

BY THE CHAIRMAN:

Q. Where do they sell their sugar? A. To the trade.

BY MR. BROSSARD:

Q. Direct to those who go around to buy it? A. Yes.

BY COMMISSIONER NADEAU:

Q. It is because they have only a few maple trees that they are not members? A. That is not the way to put it; there are always some who prefer to sell their sugar to tradesmen.

BY MR. HUDON:

Q. Are there many buyers? A. In Plessisville, sugar tradesmen are rather scarce.

BY MR. BROSSARD:

Q. Is the price those people secure about the same as yours? A. I never inquire about that.

Q. Now, does the flax cooperative deal only with its members? A. I am not a director of the flax producers' cooperative; I am not sufficiently well informed to answer

your question.

Q. Then let us proceed with the third cooperative; the agricultural cooperative. A. Butter and shorts.

Q. Does it sell only the butter made from the milk delivered by its members? A. That is to say that it deals only with its members?

Q. Yes? A. No.

Q. It deals with people who are not members? A. Yes. We are 140 farmers, and 138 are members of the cooperative. There are not many left.

Q. You do not want to deprive the others of your cooperation? A. There is only one butter factory in the parish.

Q. Does the cooperative sell to those people who are not members, shorts bought from the Cooperative Federee? A. Yes.

Q. Does it sell shorts only? A. Shorts, seeds, binder twine.

Q. It deals only with farmers? A. Yes.

JOSEPH LALIBERTE

residing in Ste. Anne de Roquemaure, Abitibi, being duly sworn on the Holy Evangelists, deposes:

BY MR. HUDON:

Q. Are you a farmer in St. Anne de Roquemaure? A. Yes.

Q. Ste. Anne is a poor parish established in 1935? A. 1933.

Q. And located twenty-five (25) miles from the first railroad? A. That is right.

Q. You are a farmer, and you own a farm? A. Yes.

Q. How many acres are cleared? A. 75.

Q. You have in your locality the following cooperatives: a consumer syndicate, a caisse populaire and a labour syndicate? A. Yes.

Q. A word or two first on the purchasing and selling

syndicate established in 1934? A. November 12, 1934.

Q. How many members at the outset? A. Eighty members when established.

Q. What is the fee? A. \$1 cash down.

Q. How many members have you now? A. 163.

Q. How many families? A. 163.

Q. What is that purchasing and selling syndicate doing?

A. It stocks all goods required to meet the needs of a rural population, that is country general store groceries, hardware, foods, clothing, articles essential to the requirements of the population.

Q. Were there any other merchants before the foundation?

A. None at all prior to the foundation.

Q. There is one now? A. Yes.

Q. The Caisse populaire was established in 1937? A. Yes, operations began in 1940.

Q. Is there a bank branch? A. No.

Q. How many members are there? A. 357 members so far.

Q. What are the assets of the Caisse populaire?

A. \$43,406.56 as at May 31st, 1944.

Q. How many loans have been made since the Caisse is in operation? A. Since the Caisse is in operation, 3311 loans have been made to a total amount of \$32,278.05.

Q. How do you break down those loans, pointing out the purposes for which they were made? A. 2,000 loans would have been used for consumption, to an amount of \$36,000; 500 loans for production to an amount of \$25,000; 200 for the construction of farm buildings and residences, to an amount of \$16,000; 7 loans have been made to various existing cooperatives and to the school board to an amount of \$10,500.

Q. That of Ste-Anne de Roquemaure? A. Yes.

Q. Let us proceed with the cooperative known as the labour

syndicate. This is rather a specific case. When was it established? A. On July 10, 1941.

Q. How many members have joined the syndicate?

A. 165 members so far.

Q. Tell us what have been or what are their activities?

A. The last project undertaken by our labour syndicate was a thresher.

Q. Before that? A. We started building barns.

Q. How many barns have been built? A. In four years, 83 barns have been built in cooperation, at the estimated value of \$700.

Q. Insurable value? A. Yes.

Q. Apart from the building of barns, what are the other activities? A. Our syndicate operates a grist mill, a fanning mill, a thresher, and in addition, for the last three years, we have been doing cooperative lumbering through our labour syndicate. In our grist mill, we have ground 8000 bushels of grain; our thresher, 28,000 bushels of grain, 6000 pounds of clover seed, 6000 pounds of hay seed. Those figures are not quite accurate, but this is a rather right estimate. We have made 98 trips for those operations.

BY COMMISSIONER NADEAU:

Q. Do you deal only with your members? A. As we are in a new parish and for lack of capital, we are necessarily bound to give that service to non-members.

BY THE CHAIRMAN:

Q. To everybody? A. Yes.

Q. All those who ask for it? A. Yes.

BY MR. HUDON:

Q. How many families are there in the parish?

A. 180 families.

Q. You have 165 members? A. Yes.

Q. Have you a tractor? A. Yes, we have a rubber-tyred tractor which operates our machinery, our grist mill, our thresher, and is used for ploughing and farming operations.

Q. The important activity has to do with logging operations in winter? A. Yes.

Q. Would you tell us in what year the first experiment took place? A. In the winter of 1942-43.

Q. How many members did you have? A. Seven (7) members.

Q. In 1943-44? A. 123.

Q. Would you tell us what is the nature of those logging operations? A. This undertaking means that members of our syndicate who wish to carry on woods operations co-operatively ask the board of directors to choose an enterprise for them. Then the board of directors visit the companies, visit the jobs the companies want to have carried out and then make a contract with the company in proportion to the number of members who wish to go into the woods and engage in logging operations as a group. The contract is more or less important according to the number of members who are willing to go in the bush.

Q. I understand that in 1943-1944 it was on the limits of the Canadian International Paper? A. Yes.

Q. And the contract called for 600,000 feet of wood? A. Yes.

Q. Did the company advance any money for the woods operations? A. In 1943-44 the company made small advances. In 1944-45 the cooperative organization financed the whole undertaking.

Q. What was the result for the members? A. The result for the members was first that they were satisfied.

Q. Let us talk about wages? A. The result was they received the fruits of their labour; they did not have to work for one, two or three jobbers standing between the workers and the company.

Q. Did they receive wages equal to and substantially higher or than the prevailing rates? A. They were much higher than the prevailing rates in the region.

Q. Was that followed by an operating surplus? A. The first year the group of seven realized an operation surplus of \$500. The second year, an operating surplus of \$20,000.

Q. Was it entirely distributed? A. It was entirely distributed in the following manner: according to the agreement for the year when they had a surplus of \$20,000, \$500 was put in the reserve fund of the society and the balance was distributed among members.

Q. \$19,500? A. Yes.

Q. On what basis? A. On a basis of 50 per cent on a day's work and 50 per cent on the money earned.

Q. 50 per cent on the number of days' work? A. Yes.

Q. Then such a distribution is based on what? A. So that all members get a square deal, and as an example: some kind of logging operations could be carried out as a job and, furthermore, some members while rendering enormous services could not perform the same amount of work on account of their age and their physical condition. By distributing the operating surplus partly on a work basis, those who had fulfilled essential functions during the operations were rewarded for the number of days they had worked in the woods.

Q. In other words, taking regularity on the job into account? A. Yes.

Q. What was the result from the point of view of jumping the job? A. From the point of view of 'jumping', it may be

said that it stopped completely job leaving in the woods, because those who are members of their own camp work for themselves and results depend on their own work. So as to give more accurate figures, I wish to quote a version of a company's representative who was saying there was a proportion of 1 to 8 between 'jumping' in an ordinary camp and in the cooperative organization. As far as we are concerned, last year, in a camp of 123 members, only two left the camp during operations for reasons more or less vague. Some of them gave up operations for reasons known in advance as not being what we call 'jumping'.

Q. And in what way was the pay of employees not engaged in actual logging work fixed? A. The remuneration of that class of employees, as the camp manager, the clerk, the cook, is naturally fixed by agreement between the cooperative organization and the members who did that kind of work. For instance, this year, the camp manager, the clerk, the cook will receive at the end of the operations the average daily wages of the best ten woodcutters.

Q. Tell us a word about life inside the camp? A. Life inside the camp may be described as follows: it is a section of the parish that moves to the camp. So parish life goes on; it is practically community life. It is also the continuation of family life. So, as a result, religious principles are better observed in the camp, cursing can be eradicated more easily and the social consequences of such an organization are such that relations between employers and employees are improved enormously. In other words, if the employees have an administrative matter concerning the camp to refer to the company, the manager is the person called upon to discuss the problem. We are in a better position to discuss the problem because we are better prepared. It is easier for the company's

representatives and the workers' representative to reach an understanding than if the worker himself had to discuss such problems.

Q. Where did the workers' syndicate finance themselves to carry their woods operations? A. With regard to woods operations, if the workers' syndicate needs money, it applies to the Caisse populaire in the parish and furthermore, if it needs food, the first step is to secure supplies from members. It becomes then a market for the agricultural products of a new parish.

BY MR. BROSSARD:

Q. Is the population of Ste-Anne de Roquemaure exclusively agricultural? A. It can be said that the great majority of the inhabitants are farmers.

Q. Are all members of the Caisse populaire farmers? A. No, we have the institutions, the parish priest.

Q. Apart from institutions, the great majority are farmers? A. Yes.

Q. Are loans made exclusively to members? A. Yes.

Q. To institutions also? A. Yes.

Q. Located in the parish? A. Yes.

Q. Is your territorial jurisdiction limited to the parish? A. No, not necessarily; to the township of Roquemaure.

Q. Loans are made to institutions located in Roquemaure township? A. Yes.

Q. Did you buy any bonds from other institutions? A. No, not up to now,

Q. Will you produce the balance sheet as F-2? A. Yes.

Q. Do you receive savings only from your members at the Caisse populaire? A. Yes.

Q. Did you make any payments on partnership shares up to now? A. You mean bonuses?

to now? A. You mean bonuses?

Q. Yes? A. Two per cent.

Q. From the beginning? A. Since the Caisse is in operation. It was established in 1937, it was inactive up to 1940. In 1941, during the first year of operations, a bonus of 2 per cent was paid on shares.

Q. Did you pay any patronage dividends? A. No patronage dividend on savings or loans.

BY COMMISSIONER NADEAU:

Q. Does your Caisse make any loan to your members to enable them to make a profit by purchasing bonds, such as Victory bonds? A. No, I do not think so.

Q. Did your Caisse buy any Victory bonds? A. No.

BY MR. BROSSARD:

Q. What do you call "other investments" on the balance sheet? A. It is the authorized capital of the Caisse regionale.

Q. Of Quebec? A. No, we have a Caisse regionale in the district.

Q. What is its name? A. La Caisse Populaire Desjardins du Nord-Ouest Quebecois.

Q. How much do you pay on your savings? A. Three per cent. But the percentage of the interest given on savings is always fixed at the end of the year.

Q. On the smallest amount? A. On the smallest quarterly amount.

Q. I did not understand well, concerning the woods operations of the workers' syndicate, the way you deal with the company. Do you sign a contract with the company?

A. Yes.

Q. Is it a contract under which the company undertakes to pay a fixed amount to the workers' syndicate? A. Yes.

Q. Is it a contract under which the syndicate promises to supply the company with a certain number of men while the contract is executed? A. It is not a question of men, it is the work; exclusively the work. The workers' syndicate takes on a job, say of 600,000 feet of wood delivered at such a place for the price of . . .

Q. It is the contract? A. Yes, it is the essential part of the contract.

Q. And you divide the profits of this contract among all those who had worked? A. Yes, who had taken part in the operations.

Q. Is any salary paid to the syndicate's manager?
A. Yes.

Q. Do you have any accountants? A. We have a clerk.

Q. What is the percentage of the contract paid in salaries? A. That is what I said a few moments ago.

Q. I am speaking of salaries paid to others than those who really do the cutting? A. I cannot tell the percentage, but their wages are determined by the wages of the ten best woodcutters. If the ten best woodcutters make \$10 a day, the manager will get \$10 a day, the cook will get \$10 a day, as well as the clerk.

BY COMMISSIONER NADEAU:

Q. Who is the inspector of the Caisse populaire?
A. Mr. Pelletier, of the Federation.

BY THE CHAIRMAN:

Q. How many times does he visit your place? A. Once a year.

Q. When you hold your meetings? A. He comes when it suits him; he does not let us know in advance.

BY COMMISSIONER NADEAU:

Q. As an inspector? A. As an inspector who wants to

make inspections.

BY MR. BROSSARD:

Q. You did not make any advances to the Union regionale besides the shares you had acquired? A. No; we had placed savings on deposit there.

Q. Is it the largest part of your savings? A. No, we handle the money ourselves as much as possible.

Q. Do you handle the money or have you a deposit in the bank? A. We have a deposit in the bank.

Q. How does your deposit in the ordinary bank compare with your deposits in the Caisse regionale? A. There is a wide difference because most of the banks are dealing with the Union. Consequently, our deposit in the caisse regionale has to be bigger than our deposit in the bank. The deposit in the bank is used to take care of the operations between la caisse populaire and the bank.

Q. That is to say, between la caisse populaire and l'Union regionale? A. No, and the bank.

Q. What are the relations between la caisse populaire and the bank? The bank does not cash your cheques?

A. No, but it transfers them to l'Union regionale. However, when we need money -- we have an agreement with the bank in case we need money -- we go over and exchange our cheques for liquid funds. We are at a great distance.

Q. In other words, your deposit in the chartered bank is used exclusively for the purpose of la caisse locale and settlement between la caisse locale and l'Union regionale? A. No.

Q. How do you pay l'Union regionale when deposits are made with the latter? A. When we make deposits in l'Union regionale we send as deposits cheques deposited in any way by our members.

Q. The sums of money that have been deposited? A. When we have a surplus of liquid money, we transfer it through the bank.

Q. You make a deposit in the bank and you write a cheque to the order of l'Union regionale? A. Yes.

BY MR. GUY LACROIX:

Q. You answered a moment ago that you were dealing only with your members? A. Yes.

Q. Do you accept in la Caisse populaire deposits made by persons who are not members as depositors? A. No.

Q. The first condition is to become a member? A. Yes.

Q. Now, how is this condition complied with? A. By signing the partnership capital declaration, by a subscription of share capital and 10 cents tax.

Q. To enjoy the advantages mentioned a moment ago, one has to pay \$5, and by so doing I would become member of your caisse? A. Yes.

Q. Once I am accepted with that \$5 share, what profit will I receive immediately on the said share; let us say that I do not borrow from the caisse and that I do not make any deposit? How much do you allow? A. There is nothing allowed in advance.

Q. How much did you pay since you are established? A. Three per cent.

Q. What is the maximum number of shares of your caisse I may hold? A. \$50.

Q. Ten shares at \$5 each? A. Yes.

Q. I may invest my \$50 and I am not obliged to become a depositor or a borrower. I may do so as an investment?

A. Theoretically, yes.

Q. If I want to enjoy the advantages you have mentioned, I may borrow? A. Yes.

Q. What rate of interest would you charge me? A. Six per

cent. It is definitely decided by the credit committee. Generally speaking we lend money at 6 per cent upon acknowledgment of a debt.

Q. You have not distributed a patronage dividend on the 6 per cent paid in by the members? A. No.

Q. In other words, they receive what is allotted on the shares, but you have never paid a real patronage dividend on the loans? A. No.

Q. Now, part of your money is invested in the *caisse populaire*? A. Not invested, deposited in a savings account.

Q. Which yields what? A. It is the first year we are operating as a *caisse regionale*. In that case as in the case of the *caisse locale*, we receive the interest at the end of the year.

Q. But there will be a *déposit*? A. Possibly.

Q. Moreover, the surplus of your money is invested in bonds or in loans granted to institutions? A. Up to now, the money is lent in the parish.

Q. When you lend money to a school board or to the "*fabrique*", what interest do you receive on those investments?

A. When we lend money to a school board and to the "*fabrique*", we are lending money to our members, and we charge the rate agreed upon by the credit committee; the advantage is that the money of the parish is used in the parish.

Q. I do not deny that. How many shares does the "*fabrique*" hold? A. Only one share.

Q. To enjoy the privilege of borrowing your money, the "*fabrique*" may become a member just like an individual? A. Yes.

Q. And in practice that is what is done? A. Yes.

Q. Do you charge interest at 6 per cent? A. Yes, we charge interest. As far as the rate is concerned it depends on the credit committee.

Q. In other words, the school board and the "fabrique" have only to subscribe \$5, and you lend money because it is stipulated in the Act? A. It is stipulated in the Act; one has to register as a member.

Q. Now, with regard to your deposits in the Banque Canadienne Nationale, are they used only for transfer of money to the caisse regionale or do you draw interest on them? A. We draw no interest, we pay for the administration of the account.

Q. How much do you pay? A. It is a current account.

Q. You have no savings account in a chartered bank. I refer to your caisse? A. No.

Q. With reference to the labor syndicate, you mentioned an undertaking organized by seven members? A. It is the first year, 1942-43.

Q. Who was running the undertaking entrusted to the labor syndicate, who were those who were going to benefit?

A. Those particular members.

Q. Do you mean to say only seven members shared the work, or did they hire men? A. Seven men shared the work, and if they hired someone, it was in an infinitely small percentage. I do not think they have hired anyone else but themselves.

Q. The undertaking yielded a profit of \$500? A. Yes.

Q. The following year there were 123 members? A. Yes.

Q. Was the undertaking composed of 123 members? A. Yes, the undertaking was composed of 123 members. There was a board of management for the works, looking after the administration.

Q. What was accomplished during one year by seven members has extended the following year to 123 by applying the same principle? A. Yes.

BY THE CHAIRMAN:

Q. I believe you said you never paid a patronage dividend?

A. The caisse populaire?

Q. Yes? A. On the savings and the loans, no.

Q. Then the surplus goes to the reserve? A. A small reserve; a portion goes to the provident fund and the balance is used to pay interest on the savings and the bonus on the shares. We set up very small reserves.

BY MR. BROSSARD:

Q. With reference to your caisse, do you happen to have members who never make a deposit or borrow any money? A. No, I do not think so.

Q. You never had neither one nor the other class of members? A. It may happen that momentarily a member is neither a depositor nor a borrower, but sooner or later, he will be either one. It is only momentary.

Q. I notice that with regard to your balance sheet you had reason to say that the amount deposited in the centrale is bigger than the one in the bank. You have \$434 in the Banque Canadienne Nationale and \$31,000 in l'Union regionale? A. Yes.

Q. Could you give any explanation? A. With regard to the proportion, it varies. We are in a colonization stage. It is in the month of May after the money is deposited by those who spent the winter in the lumber camps. Such deposits are cheques and we need less liquid money than at the end of June when a series of construction starts. For that reason, the amount in la caisse regionale is larger then. In the summer and the fall, it represents between four and six thousand dollars.

BY COMMISSIONER NADEAU:

Q. Would you file the rules and regulations as well as

the constitution of the caisses populaires? A. It is all the same with varying details.

(The Commission adjourned to two o'clock in the afternoon.)

At two o'clock in the afternoon,

ERNEST LAVALLEE

of St. Anselme, County of Dorchester, being sworn on the Holy Evangelists, deposes:

BY MR. HUDON:

Q. Are you a farmer? A. No.

Q. What is your occupation? A. I am manager of the Cooperative Hatchery of St. Anselme.

Q. Are you manager of la caisse populaire? A. No, I am president of la caisse populaire.

Q. In what year was the hatchery established? A. In 1931.

Q. And the hatchery is governed by the Cooperative Agricultural Associations Act? A. Yes.

Q. How many founder members? A. Twenty-five members.

Q. What was the price of each share? A. It is divided as follows: five shares of \$10 payable in four annual instalments.

Q. What were the services of the hatchery and what are they now? A. The incubation, the sale of day old chicks, and at the same time the sale of 4 to 8 weeks old pullets and even of laying hens.

Q. At the market price? A. Yes, at the market price; if you are interested, I can give you to-day's prices.

Q. What has been the result, if it may be compared, between 1931 and 1944? A. In 1931, 16,542 eggs were incubated at the St. Anselme Hatchery, and in 1944, 319,550.

Q. In other words, an increase of how many eggs?

A. 2200 per cent.

Q. Have prices dropped or increased for consumers?

A. It had the effect of lowering prices because, then, eggs were selling in the winter, especially in November and December, even in October ...

Q. Who financed the hatchery when it was organized?

A. At the time, it was the partnership capital.

Q. You are president of the Caisse populaire founded in what year? A. In 1923.

Q. Is there any connection between the Caisse and the Hatchery? A. Yes, we got some assistance from the Caisse populaire; we borrowed from the Caisse populaire because we had to change our machines several times due to circumstances and we borrowed from \$2,500 to \$3,000.

Q. Has this amount been paid back now? A. Yes, completely reimbursed.

Q. Are there any banks at St. Anselme? A. Yes, two banks.

Q. Were they in existence when the Caisse populaire was established? A. Apparently, there has been two banks at St. Anselme since I am there, and I arrived in 1922. To-day there is one more branch. That bank has become a branch, the other has not changed.

Q. What is the rate charged by the Caisse to the borrowers who give a mortgage? A. Five per cent.

Q. Is there any patronage dividend? A. Yes.

Q. Of how much; the last that was paid? A. One per cent.

Q. What was the old rate in force at St. Anselme?

A. It was from 7 to 8 per cent.

Q. With patronage dividend or not? A. The words "patronage dividend" were then unknown.

Q. On acknowledgment of debt, how much? A. Five per cent

Q. Is there a patronage dividend? A. It varies according

to the loan; if the loan is large. If it is a small loan of \$10, \$15 or \$25, it is not the same thing; but if the loan is large enough, the same privilege is granted as on a mortgage.

Q. For what purposes are loans made? A. At St. Anselme, we have a parish which I may call a farming parish exclusively. It is for farming, generally speaking, fertilizers, seeds, shorts, agricultural, and now and again funeral expenses.

Q. You have talked about the position of the borrower and the depositor and about the conditions of cooperative organizations in your district. Do you invest a certain amount of money in Victory bonds? A. I think that 33 or 40 per cent of our bonds are Victory bonds.

BY MR. BROSSARD:

Q. One word about the Hatchery. Besides the financial subscription made by society members, what is the members' subscription in connection with the Hatchery? A. Do you refer to the partnership capital?

Q. Besides the partnership capital? A. You want to know how it is financed?

Q. What makes it operate? A. We charge two cents for eggs, two cents each egg. I could give you the quantities of eggs dealt with by the Couvoir de St. Anselme (St. Anselme Hatchery).

Q. Do you only hatch eggs brought in by members? A. Yes.

Q. Do you take in any brought in by non-members?

A. No; we had many demands in that respect but not enough machines.

Q. You state that members only can use the incubators of your Hatchery? A. Yes.

Q. Does the Hatchery also sell laying hens to its members? A. Yes, it may happen that between members, one may sell hens and that one member may supply hens to another.

Do you make any purchases elsewhere? A. Yes. As I said a while ago there are many poultry raisers at St. Anselme who would like to belong to the Hatchery and we would be eager to take them in. Now, we supply a service to non-members, the non-members who want to raise one day pullets for re-sale in 5 or 8 weeks. Then, the board of directors looks after these sales. We charge them a commission of 5 per cent but we supply everything; we even supply transportation, delivery crates; we pay for the return of empties, stationery and book-keeping.

Q. Do you allow the same terms to members as to non-members? A. Terms are a little better for members.

Q. Why? Because you only charge two and a half? A. Yes.

Q. Do you sell day-old chicks to nonmembers? A. Yes.

Q. To keep them for a time? A. Yes, and for their own needs.

Q. Have you any idea of the proportion between operations done with non-members and those essentially transacted with members? A. Considering the sale of chicks only, whilst at St. Anselme there are 80 per cent or even 90 per cent who buy in St. Anselme, there are exactly 26 members belonging to the St. Anselme Hatchery, others are strangers, others belong to Ste. Claire; that is to say, we have chosen the best poultry men of the region in order to ensure quality production -- the rest of the farmers of St. Anselme, 160 to 165 of whom are owners of their own farms, buy chicks from us.

Q. Now, these other persons who are not members and who buy chicks from you, do they leave any chicks in your hands for you to raise? A. Not all of them. A lot of them are able to do that as well as others, not because one needs to be a specialist to raise poultry and be able to offer uniform products. There are many requirements.

Q. Among those who come to buy chicks, do you make a difference between members and non-members? A. No, not for prices, no.

Q. Do you refuse to sell to non-members? A. No.

Q. Do you refuse to keep chickens for raising for non-members? A. No; that has an advantage: we make the sales.

Q. Do you refuse to handle the hatching for non-members? A. We are obliged to do that.

Q. Obligated by what? The cooperative belongs to its members, it does not belong to anybody else; it would be unlawful to make space for another and to refuse a member.

Q. Am I to understand that if you are refusing, it is because you have not the necessary equipment to do so?

A. These people would like to become members and if we do not admit them, it is because lack of space forces us to do so..

Q. It is the lack of space which obliges you to refuse to furnish the services requested? A. Yes.

BY THE CHAIRMAN:

Q. Do you actually refuse? A. We refuse because our equipment is too small for a high production of eggs. To-day the space reserved for members for incubation purposes is limited to 450 eggs per week. It is not a large proportion and were we to admit another ten members or all the members who want to come in, we would probably be obliged to limit the production perhaps to 150 eggs a week.

Q. I cannot understand why you should choose your membership in the parish? A. We do not choose our members. The members who came in at the foundation are the members we have. To-day we do not choose amongst those 39 members in the matter of incubation; the incubators belong to them and we have set our equipment in such a way as to let each of them bring his own quantity.

BY MR. BROSSARD:

Q. There are limitations as to incubation but not as to other services for non-members? A. No.

Q. Since 1931, has your hatchery put aside any reserves?
A. Since 1931, yes. To-day the general reserve amounts to \$3,798.44.

Q. Have you any other reserves apart from the general reserve? A. We have our patronage dividends placed at our credit.

Q. What do you mean? Credited patronage dividends but not paid? A. Not paid over.

Q. Since what time? A. I have here with me the statement for 1942.

Q. How were they credited to each member? A. These patronage dividends have been credited in favour of each.

Q. In the ratio of the amount of his business? A. No, in the ratio of eggs brought in.

BY THE CHAIRMAN:

Q. For what reason have you not paid up? A. Because we have always been in debt; we only got through paying them in 1944, we have no more debts since 1944.

BY MR. BROSSARD:

Q. Those reserves you speak about, where do they come from? A. They are the net profits. If, for instance, we have net profits of \$3,000 or \$1,800, we then decide at the general meeting to pay one-half cent the egg which passed through the Hatchery when we were charging two cents.

Q. You allow a patronage dividend of one-half cent?
A. Yes.

Q. In the end, it would have cost a cent and a half?
A. Yes; now this patronage dividend of one-half cent has not been paid over; it has only been credited.

Q. Do you say that you have patronage dividends that have been declared but not paid? A. Yes.

Q. Since when have they been declared? A. Since 1942.

Q. They have not been paid since 1942? A. No.

Q. There has been no decision on the part of your co-operative to pay them? A. No.

BY MR. CHAIRMAN:

Q. What do you do with them? A. They are credited to each member on the value of the property.

Q. Does the money remain in your hands? A. It is not an amount of money if we have a debt and if we make a net profit. Then, we credit each member if we have paid such a debt with the proceeds of the net profit, on the building, on the property owned by the members.

BY MR. BROSSARD:

Q. In 1942 you have credited the business profits for that year and you have carried a certain amount to the credit of each of your members? A. Yes.

Q. And you have not paid it? A. No.

Q. What did you do? You have applied it on account on your debt? A. Yes.

Q. Then, you will not pay them? A. If we earn net profits during the following years, we may be able to pay a part of them.

Q. That patronage dividend which you have set is conditional on your making more profits in the years to come?

A. Yes.

Q. Will you submit a copy of the balance sheet? A. Yes.

Q. Have you, besides those patronage dividends, a profit and loss or a surplus account? A. In the balance sheet, under the heading Profit and Loss Account we have an operating profit of \$1,603.37 for the year ended July 27, 1944.

Q. Has that amount been added to another amount of profit and loss accrued from previous years? A. It was added to the amount of patronage dividend; they are accrued profits.

Q. What are the accrued profits since the beginning, according to your balance sheet? A. Yearly profits, \$11,183.26; general reserve, \$2,798.43; patronage dividends credited, \$6,508.64; and undistributed balance, last year's balance, \$18,078.18. That includes a special profit that is not a profit. The operating profit is only \$1,603; there are grants from the Department of Agriculture that are paid and those grants cost us the amount they earn. They are grants for blood tests, to pay the veterinary surgeons.

BY THE CHAIRMAN:

Q. You are indebted to the members by the amount of those credits? A. Yes.

Q. What do you do at the death of a member? Do you pay his estate? A. Yes, we are committed to pay. If a member wanted to leave St. Anselme, we go to the ledger to the page where is entered every year the number of eggs he had hatched, and to be fair towards that member we reimburse his partnership stock and the amount credited to him.

BY MR. BROSSARD:

Q. Did you have to do it since the hatchery has been established? A. I do not remember.

BY THE CHAIRMAN:

Q. Up to the payment, is it yours or his? A. It is not mine; nothing of that belongs to me; it belongs to each of the members.

BY MR. BROSSARD:

Q. Who leave it with you, and which you utilize?

A. Up to this day, they are debts that we paid.

Q. That is, you contracted a debt to wipe out another?

A. Yes, the Caisse populaire debt since the establishment of the hatchery. Buildings were built, extended and improved with the operating profits earned. Of course we could not distribute those profits since loans were made from the Caisse populaire.

Q. Did you reimburse the Caisse populaire? A. Yes.

Q. With the profits earned? A. Yes.

Q. As to those profits that you earned and out of which you reimbursed the Caisse populaire, have you credited each of the members in your books? A. What has just been settled, it is the patronage dividends that have been credited.

Q. Did you do it? A. It has been done.

Q. Did you credit the patronage dividends from year to year? A. Since 1942.

Q. When did you pay your debt to the Caisse populaire? A. In 1944.

Q. When was that debt contracted? A. In 1939 or 1940. It was in December 1939 or January 1940.

BY THE CHAIRMAN:

Q. And you have paid it out of the amounts credited to the members? A. Yes, it is with the profits earned each year that we reimbursed the Caisse populaire.

Q. Did you clear your debt to the Caisse populaire out of the patronage dividends that you credited to the members or did you settle it with that and other amounts? In other words, did you credit your members with the profits earned in previous years? A. Of course. Let me illustrate. In 1942 when the amounts were credited, the yearly profits were set at \$5,844.26. It was not the profit for the year 1942 but the accrued profits since 1942. It was then that we credited the value to our members.

Q. The full amount? A. Yes.

Q. You kept it? A. We credited it to the members.

Q. You did not yet have the opportunity to pay any of your members? A. No.

BY MR. NADEAU:

Q. Do you pay interest to your members on those amounts?

A. No.

Q. As regards the Caisse populaire, you heard the other witnesses this morning? A. Yes.

Q. Are your operations substantially of the same nature as those of the Caisses that were mentioned? A. Practically the same.

Q. Do you also lend to school or municipal corporations?

A. It has been done in the past, but I do not believe that at the present time there are any outstanding loans to corporations.

Q. What do your assets consist of? Investments and bonds? A. The assets, we have \$123,963.86 in bonds. Out of those bonds from 30 to 40 per cent are Victory bonds.

Q. The others are school and municipal bonds? A. Yes, most of them, and religious institutions. Besides we have a deposit of \$3,000 at the Caisse centrale.

Q. Do you credit your members with the interest you receive on Victory bonds? A. They are savings our members have deposited at the Caisse populaire; they go to the account of the Caisse populaire.

BY THE CHAIRMAN:

Q. That revenue serves in part to pay the interest on deposits? A. Yes.

Q. What interest do you pay on deposits? A. Two per cent.

Q. How much do you receive from the Caisse centrale?

A. I do not know, two and a half per cent, perhaps.

Q. Do you pay a patronage dividend to your depositors, your borrowers or your members? A. We pay the bonus after

the general meeting, if it is decided to pay any. We never paid more than five nor less than four per cent, I do not think.

Q. How much do you pay on share capital? A. That is it, 4 or 5 per cent.

Q. Did that interest vary in the course of the years?

A. From 4 to 5 per cent. I think it was always 5 per cent before the present year.

Q. You reduced it to 4 per cent? A. Yes.

Q. Before paying 5 per cent, did you pay a lower rate?

A. No.

Q. Do you pay the bonus besides the 5 per cent? A. On shares.

Q. Your profits are distributed between your shareholders, your depositors and your borrowers? A. The borrowers and shareholders are the same, the same persons.

Q. Besides the 2 per cent you pay on deposits, do you distribute to your depositors any part whatsoever of your net annual revenue? A. Besides the bonus on shares as shareholders?

Q. According to the number of shares they hold? A. Yes, if you refer to the borrowers, they borrow at 5 per cent. They pay off their loans every fortnight or every month. It is practically 3 per cent. ^{Q.} Apart from that interest you require the borrowers to pay, interest which is set in advance, do you distribute to the borrowers any part of your net annual revenue? A. Nothing else but the bonus on their shares.

Q. I am justified in coming to the conclusion that with your net annual revenue you pay interest or a bonus to your shareholders according to the number of shares they hold, and that you also accumulate reserves? A. Yes.

Q. But your shareholders, as borrowers or depositors, do not directly benefit from the year's net profits. Is that correct? A. The Caisse belongs to them; the Caisse populaire

belongs to all the members.

BY THE CHAIRMAN:

Q. Do you finance any of your members who wants to personally buy Victory bonds? A. You mean, lend them money to buy a Victory bond?

Q. Yes? A. I cannot say what was done; I am not the manager and I really do not know. I do not know if it is possible. Is it possible that the Caisse lends money at 5 per cent and convert it into Victory bonds at 3 per cent?

Q. Would not that be a means of reducing the investment of the Caisse, as a Caisse, and of increasing the savings of your members? A. I do not see if it really could increase the savings of the members.

BY MR. BROSSARD:

Q. At what rate do you lend to school boards? A. The rate is 5 per cent less one and one-half per cent.

Q. Is it because it is a school board? A. No, not more than the others.

Q. What do you mean? A. If the general meeting decides to make loans at 5 per cent, when the credit committee grants a loan and the borrower pays back, say, \$50 a month, we tell him: "We will give you one per cent."

Q. In other words, if he meets his obligations, you pay him interest at a rate of one per cent? A. Yes.

Q. And if he does not meet his obligations, you charge him the full rate of interest of 5 per cent? A. Yes.

BY MR. HUDON:

Q. With reference again to the Hatchery, I understand that all the eggs are supplied by the members and members residing in six neighbouring parishes? A. Yes.

Q. The territory served by the Hatchery is not limited to the parish of St. Anselme only? A. No.

Q. With regard to the sale of chicks, evidently, it is

made to the members and to those who wish to buy some?

A. Yes.

Q. Would you produce the balance sheet? A. Yes.

PIERRE TURGEON

of St-Anselme, Dorchester County, having been duly sworn on the Holy Evangelists, deposes:

BY MR. HUDON:

Q. You reside in St-Anselme? A. Yes.

BY MR. BROSSARD:

Q. I understand that the witness comes from the same place as the previous witness. I do not think it is necessary to hear his evidence on the same facts.

(The witness retired)

ALBERT COTE

residing in Quebec City, 17, Carillon Street, having been duly sworn, reports:

BY MR. HUDON:

Q. I understand that you are manager of the Caisse populaire of St-Sauveur? A. Yes.

Q. St-Sauveur being a parish of Quebec City with a workingclass population? A. Yes.

Q. Besides being a manager of the Caisse populaire what is your occupation? A. I am a civil engineer.

Q. Would you tell us what year the Caisse populaire of St-Sauveur was founded? A. In 1908.

Q. Would you file a summary balance sheet as at 31 January, 1945, as Exhibit 5? A. Yes.

Q. The Caisse operates in a working-class district? A. Yes.

Q. Composed almost entirely of workers? A. Yes,

about 90 per cent.

Q. What is the rate charged to members for mortgage loans?

A. Five per cent.

Q. What is the amount credited to the share capital?

A. The amount paid on the share capital is four per cent.

Q. What is the savings rate? A. Two and a half per cent.

Q. What is the proportion of government loans? A. We have from 50 to 60 per cent in government bonds.

Q. What is, in your opinion, the amount of government bonds purchased by the members through the Caisse at the time of the last Victory loan? A. We cannot control all the bond purchase, but during the Seventh Victory Loan our members purchased from \$35,000 to \$40,000 worth of bonds, either by means of cheques on their deposit accounts or with the loans we made them to buy those bonds or make up the balance.

Q. What are the considerations, apart from government loans, which influence your credit committee in granting loans to members? A. First of all, we grant loans on mortgages, on property, either for repairs to old houses or slum clearances, for the acquisition of certain properties, as we did chiefly during the last two or three years, or to build new houses. Moreover, we make loans on acknowledgment of debt, the proceeds of which the members generally use to pay their little debts, buy furniture or pay off debts here and there.

Q. Could you give three instances, three concrete cases. You mentioned property restoration. A. I have a case in mind. This year, we had to help a member whose property consisting of a single dwelling was in a very dilapidated condition; he could no longer live in it. We loaned him a large proportion of the value of his property and he built himself a new house with three apartments in addition to his own.

Q. An example of a loan on acknowledgment of debt?

A. I could go on all day giving examples.

Q. Just one at random? A. About a year ago, we made a loan to a man with an income of \$25 a week. He owed \$250 on furniture bought when he got married. He had a child and expected another one. He came to the Caisse and we made him a loan of \$300 on a note endorsed by two men whose financial standing was none too good, apparently honest people, but without any value from the point of view of solvency. We made the loan on the understanding it was to be repaid at the rate of \$20 a month or \$5 a week, and our man met his indebtedness perfectly. I want to point out the regular way his payments were made. We often have people like that with a very small income, where it is a case of close budgetting, and I consider that the service we render our members resides chiefly in the fact that we budget their expenses.

BY THE CHAIRMAN:

Q. What was the rate of interest in the case you have just mentioned? A. Six per cent on acknowledgment of debt. Now, the interest rate is always computed on the balance owing, so that generally loans on note of hand are not granted for a period of more than one year, and, if the borrower keeps up his payments, the actual rate is three and three quarters per cent.

Q. He does not pay six per cent? A. No.

BY MR. HUDON:

Q. You have now 2290 members, 320 colleges, 243 convents. Will you explain what all that means? A. In order to spread the idea of cooperation and chiefly to teach the young children how to save, we have organized in our schools caisses called Caisses Scholaires (School Savings Banks) and we collect the money every week. We let our children make a banking transaction when they are very young. We take deposits

of one cent at a time. It does not pay from the point of view of profits, but it is simply for propaganda purposes, to get our children into the habit, and as a matter of education.

Q. And so you have in your schools 563 children who are allowed to deposit even one cent at a time? A. Yes.

Q. Are the members of the credit committee and of the supervising committee in your Caisse paid for their work?

A. The manager is the only man who is paid.

Q. And you had at 31 January, 1945, \$18,000 worth of loans on acknowledgment of debts and \$609,000 in mortgage loans?

A. Yes.

Q. Is there among these loans on acknowledgment of debts or mortgage loans a single one granted to non-members?

A. No.

BY THE CHAIRMAN:

Q. Is your Caisse inspected? A. Yes, by Federation inspectors.

Q. Once a year? A. About once a year.

BY MR. BROSSARD:

Q. In the case of the loan you granted for the conversion of the single dwelling property, what guarantee did you require from the borrower? A. I think he had \$1,000.

Q. How much did you loan? A. \$8,000.

Q. What guarantee did you require? A. We took a first mortgage on the property.

Q. No endorser? A. No.

Q. What is the maximum amount you are able to loan?

A. It is more or less determined by the amount of our available funds.

Q. I mean the maximum amount of individual loans?

A. At the present time, if you ask me what is the maximum amount of individual loans, we would not go beyond \$4,000 or \$5,000 because we have reached a limit of caution which prevents

us from making loans. But we have no stated maximum in our by-laws.

Q. Is the board of directors or the credit committee the only body deciding what loans are to be made? A. Legally, yes.

Q. Apparently you are making a distinction? A. In a Caisse, obviously, there is cooperation between the credit committee and all the officers. And it has happened in ours that in certain cases the credit committee would rather have the opinion of the board of directors.

Q. There is no amount beyond which you cannot lend without the consent of the Union regionale or of the Federation?

A. Whatever the amount, we have nothing to do with the Federation.

Q. What about loans to others than your members?

A. Loans to others than our members are investments.

Q. How do you make them? A. They are bond purchases and we must obtain the Federation's approval.

Q. In fact, about those bond purchases, is the initiative with the local Caisse or with the Union regionale? A. The initiative is with the local Caisse; it knows the amount of funds available, it takes the initiative to inquire from the Federation if the latter has any bonds on hand. What happens most of the time is that bond dealers offer us some bonds and we ask the Federation for approval.

Q. Are there any cases when the Union regionale or the Federation initiate the purchase themselves. Is it possible for the Federation to buy a whole bond issue of a religious institution and divide the amount among the various Caisses, a block to each? A. The Federation can never compel us to purchase bonds; we are autonomous.

Q. From the legal point of view? A. Theoretically, also.

The only instance where we were invited to subscribe was for the Victory loans. So far as I know since I am the manager of the Caisse, I never had any applications whatsoever for subscription.

Q. To your knowledge, the Union regionale did not happen to subscribe the total issue of a municipality or institution, and divide it in various blocks among the Caisses locales?

A. No, not to my knowledge.

Q. You said that you paid a certain percentage to your shareholders? A. We paid this year 4 per cent on the share capital and two and a half per cent on savings.

Q. Two and a half per cent, that is the fixed interest you pay to depositors? A. Yes.

Q. But in addition to that fixed interest, did you pay anything to the depositors? A. Not this year.

Q. Did you ever do so? A. We have paid a patronage dividend on loans before.

Q. The depositors? A. No; I consider that two and a half per cent is quite a fair rate.

Q. To borrowers, did you ever pay any patronage dividend? A. Yes.

Q. On many occasions? A. We have not for two years now. Before that, I am not in a position to tell you.

Q. Did the interest rate paid to your members vary during the last ten or twelve years? A. The rate we paid to our members on savings has ranged from 3 to $2\frac{1}{2}$ per cent, and on capital from 5 to 4 per cent.

BY MR. LACROIX:

Q. Would you tell us in a few words how it works from the viewpoint of the hierarchy of the Caisse? You have the Caisse locale like yours, and then how does the gradation run from the point of view of the Caisses? The Caisse locale

enjoys complete autonomy except with regard to investments; we have to secure authorization from the Federation. So it is with the inspection of the Caisses for which we have to depend on the Federation.

Q. Reference is made to the Caisse regionale. Is there an intermediate degree between the Caisse locale and the Federation? A. The Caisse regionale is the clearing Caisse, I would say. Our outstanding cheques are cashed at each bank and drawn on the Caisse centrale.

Q. Where do you deposit your operating surplus? A. With the Caisse centrale to cover our liabilities.

Q. You get an interest of $2\frac{1}{2}$ per cent? A. Yes.

Q. Does the Caisse centrale place those funds with the Federation? A. It cannot place them with the Federation because the Federation does not fund. It generally places them as securities on the market.

Q. You have just said that you made loans only to your members? A. Yes.

Q. To your knowledge, did it ever happen that people wanted to borrow from the Caisse without belonging to it and they were asked as a condition to become members? A. Surely.

Q. That happens? A. Very often. This is not asked for as a condition. Suppose that an individual comes to the Caisse with a view to secure a loan; we ask him if he is a member. If he is not, we say: "The only thing you have to do is to become a member."

Q. If I come to your Caisse without being a member, you will ask me to become a member? A. Yes.

Q. And this will cost me \$5? A. You have to invest \$5.

Q. On which you will pay me interest at 4 per cent?

A. We do not undertake to pay.

BY THE CHAIRMAN:

Q. You are going to make the loan to him at once?

A. We will consider his case.

BY MR. LACROIX:

Q. Now, against a \$5 investment bearing interest of 4 per cent, I will be able to enjoy immediately the advantages you grant? A. Yes.

Q. You made reference a little while ago to the \$8,000 loan secured by a mortgage. Could you tell us how much this gentleman had in your caisse? A. He had surely not more than \$5 or \$10 in shares, for we ask the borrower to invest all the money at his disposal in his project.

Q. You do not consider the number of shares I hold in the share capital; as long as I hold a share, it is enough? A. Yes.

Q. For anyone who comes to you? A. Perhaps not anyone.

Q. Anyone who gives you satisfaction from the standpoint of a character? A. To be a member you have to be a depositor and live within the territorial district.

Q. Do you have to reside in the territorial district? A. When the application is made, the applicant must reside in the territorial district.

Q. Do you know of any individuals holding share capital in caisses of parishes where they do not live? A. It happens that members who lived in the district afterwards took up residence outside the area.

Q. They retain their shares in the Caisse located in the parish they come from and take new shares in their new parish? A. Yes.

Q. What is the limit a member can hold in your Caisse? A. In our Caisse it is \$1,500.

Q. Now, with regard to what you called a moment ago

the patronage dividend you paid on the loans, except for the last two years, can this be identified with the case just pointed out that it is a reward, a bonus for those who meet their obligations? A. It is a distribution of profits to those who caused them; that is to say, that it is actually the borrower who brings profits to the Caisse.

Q. Do you make a distinction between two borrowers one of whom repays his loan faithfully while the others does not?

A. A patronage dividend should apply to all those bringing profits to the Caisse.

Q. You make a distinction between what Mr. Lavallee called a bonus and what you call a patronage dividend? A. A bonus is the interest on the share capital.

Q. Mr. Lavallee explained a few minutes ago that the investments were made on a basis of 6 per cent, and that the one per cent was a refund. A. When I refer to patronage dividend, this has been paid to all the borrowers who paid interest during the year.

BY THE CHAIRMAN:

Q. Have you a loss factor on your loans? A. No, I did not prepare it; we are incurring a few slight losses. I will be in a position to give it to you in a few minutes. I do not think that the factor will reach one per cent.

Q. Do you insure your deposits, your loans, in a reimbursement insurance company? A. For reimbursement, no.

Q. You are not carrying insurance of any kind?

A. You mean an insurance to ensure reimbursement if the individual does not repay his loan?

Q. When you make a mortgage loan, do you insure the properties? A. Yes, against fire.

BY MR. LACROIX:

Q. Who underwrites that insurance? A. The insurance is

underwritten by members' agents. Suppose that an individual comes to the Caisse to get a loan, he has the insurance agent who usually looks after his assets, so he continues with his own agent. We insist on the inclusion of mortgage clause in favour of the Caisse.

Q. Does the Union regionale insure you in that field of insurance on mortgage loans? A. Not yet, I hope it will soon do so.

Q. Do you make loans to other industries than the co-operatives? A. We have one loan to a consumer cooperative.

Q. I am referring to other industries than cooperatives? A. No.

Q. Suppose one of your members has a business and wishes to get a loan for his business. Do you make the loan? A. No, we leave that to the banks.

Senator Cyrille Vaillancourt

resumes his evidence as follows:

BY MR. BROSSARD:

Q. We heard on several occasions of the Caisses centrales and the Caisses regionales. Would you describe to the Commission the exact operation of the Caisses regionales? A. With your permission, we will start at the beginning. The Caisse locale operates on the parochial plan. Well, Mr. Desjardins says: "The first thing to do is to have the parish money spent in the parish in order that it may progress and develop." Now, with the economical expansion, and so on, we have been led to set up regional organizations. We have regional organizations because regional problems cannot be the same as those of a whole country. For instance, the problems of the district of Gaspé cannot be the same as

those of the district of Quebec. So the district of Gaspé has its own regional organization where the caisses locales deposit their surplus funds. Moreover, the caisse regionale acts as the clearing house because in a great number of localities, say in 60 per cent of the localities where a caisse populaire is established, there is no bank. We have an agreement with the banks. The funds of the caisses are deposited with us and we offset the cheques. At certain periods, the movement of money is not the same all over. You were told so a moment ago with regard to Abitibi; when the month of May comes around the men are paid for the woods operations, but it is also the time when the real farmers need money for their supply of chemical fertilizers. Then, if a caisse needs money, another caisse lends it and that is why we use part of our funds for bonds investment. The loan is not negotiable, but, on the other hand, bonds are. All our funds cannot remain without yielding interest, they have to work. Take a caisse which has a surplus, it buys bonds of the Dominion of Canada, of a provincial government, of a municipality. Time comes, however, when the caisse needs money. The bonds are transferred to us and we grant a loan. That explains how the Caisse of Ste-Perpetue helped the Caisse de St-Denis through la centrale. Individually they could not do it.

Q. As a matter of fact, la caisse regionale makes advances, grants loans to the caisses locales and also receives deposits from the caisses locales? A. Yes.

Q. What is the rate of interest charged by the caisse regionale for advances made to the caisses locales?

A. It is to be noted that each caisse regionale operates in its own field. In the district we charge 4 per cent to caisses locales except if the money is needed for the financing of Victory Loans during the six months; we are doing what we

are asked to do -- 3 per cent.

Q. On deposits? A. Two and one half per cent on the minimum quarterly balance.

Q. In the course of the year's operations, out of its dealings with its locales, the caisse regionale realizes a profit? A. Yes, it must hold somewhere.

Q. Is it a substantial profit? A. Presently, when we are lending at 3 per cent and paying $2\frac{1}{2}$ per cent, there is not much left.

Q. But when you grant loans you charge 4 per cent. On such transactions there is a profit of $1\frac{1}{2}$ per cent? A. Yes.

Q. Would you produce the balance sheet of a caisse centrale, "La Caisse Centrale de Quebec"? A. Yes.

Q. Is there a centrale of centrales? A. No; there is the Federation; but it is for the inspection, not for the reception of deposits.

Q. The Federation has no organization corresponding to the caisse regionale? A. No, the Federation does not receive deposits.

Q. From a legal view point, the caisse regionale is separate from l'Union regionale? A. No, it is the same body.

Q. I thought I understood in Montreal that they were two different, distinct organizations? A. They have the same board of directors, the same manager; it is only a section. What happened is that the unions were founded before the caisses regionales.

Q. So, as Mr. Girardin said, the caisse regionale is only a service? A. Yes.

Q. And the majority of the caisses regionales operate as you just said? A. Yes.

BY THE CHAIRMAN:

Q. Are there any caisses centrales? A. They should be

called caisses regionales.

BY MR. BROSSARD:

Q. They are called caisses centrales, but they should be called caisses centrales regionales? A. Yes.

Q. Is there an organization looking after the exchanges that have to be made between the regions? A. We make deposits with one another and when we receive cheques drawn on one region we honour them and the region does the same.

BY MR. NADEAU:

Q. Have you banking operations with the banks? A. If the caisse regionale happens to need liquid funds and has to go to the bank to borrow?

Q. Yes? A. That is done every year, when large withdrawals are made in the spring.

Q. Are all the caisses populaires of the Province of Quebec federated? A. Yes, minus one. There are 903 or 904 caisses. I mean the French caisses, not the Credit Unions.

BY MR. BROSSARD:

Q. I asked a witness, this afternoon, if it sometimes happens that either the Federation or the union regionale buys the whole bond issue of a school board, a municipal corporation or a religious institution and if in turn the said union distributes between its different caisses the issue so purchased. Did that happen? A. Not so far as the Federation is concerned, but it happened by exception for a caisse regionale. The caisse regionale bought the issue, but never said: "I will buy such issue and you will take so much." They are exceptional cases and very small lots.

Q. To whom does the caisse regionale make loans?

A. According to section 40 of the Cooperative Syndicates Act, the caisse is authorized to make loans to religious institutions, fabriques, trustees, school boards, municipal commissions, convents.

Q. No matter if they are members or non-members of caisses populaires? A. Yes.

BY MR. NADEAU:

Q. Without distinction? A. Without distinction.

BY MR. BROSSARD:

Q. Out of the money received in deposit from its caisses locales, the caisse regionale may make loans to people who are not members of caisses locales or regionales? A. Yes.

Q. As a matter of fact, are not the loans of the caisse regionale made for the most part to non-members, to institutions non-members of caisses locales? A. In the first place, I am speaking of loans; I always make a distinction.

Q. For the purchase of bonds? A. Direct loans, we make loans to members.

Q. The caisses locales? A. Outside of that, the institution is authorized to join the caisse, it has to buy a share and after that business can be done as a fabrique. Not 2 per cent is dealt with that way; they are obligations, we are forced to transact that way by the nature of the things, because we need securities negotiable on demand.

BY MR. NADEAU:

Q. Which can be easily discounted? A. Yes, we go to the bank.

Q. Does your balance sheet show clearly the disposal of all those funds, investment, loans to religious institutions, etc.? A. I will give you the balance sheet of la Caisse Regionale de Quebec; everything is shown. Out of an amount of \$9 millions, \$40,000 to \$50,000 are loans, the balance is composed of bonds.

BY MR. BROSSARD:

Q. Does the caisse regionale distribute profits to caisses locales in the way of bonus, interest, dividends?

A. We pay $2\frac{1}{2}$ per cent on savings and 5 per cent on the capital.

Q. On the capital, is it a fixed amount? A. It is determined each year at the general meeting.

Q. The capital is the total payment made by each caisse locale according to the amount of its assets? A. No caisse is authorized to take more than \$3,000 from the regionale, it has to pay a tax.

Q. And you pay up to 5 per cent? A. Yes.

Q. According to your constitution would you be authorized to pay more than 5 per cent? A. Yes, we could pay as much as 8 per cent. With your permission, Mr. Commissioner, I would like to make one point clear. When we pay a rate of interest of 5 per cent, you know that we have to pay a tax of 7 per cent on it, and our caisse pays like all the other cooperatives.

Q. You deduct? A. I pay 5 per cent, I deduct 7 per cent from the 5 per cent and I send it to the Government.

Q. You hold it on the amount paid to each individual? A. Yes. Now, there is another point concerning the 7 per cent which is unfair as far as we are concerned. With regard to ordinary corporations, it is admitted by the Income Tax Department that if one draws less than \$1, he has not to pay the 7 per cent. So, the corporations which are able to pay two cents less than 4 per cent but which pay in 4 instalments have not to pay; on the other hand because we are paying 3 per cent once a year, we are taxed immediately. The caisse regionale does not pay, but the individuals do. I do say so because I want to establish that our individuals pay.

BY MR. BROSSARD:

Q. I understand that a caisse locale to become a member of l'Union regionale has to subscribe a certain portion of the

authorized capital of the latter? A. Yes.

Q. Is there a certain maximum for that subscription?

A. As far as we are concerned, the maximum is \$3,000.

Q. The maximum is stipulated in your constitution?

A. Yes, to prevent this; if the amount was unlimited -- as it is withdrawable -- everybody could withdraw in a lump sum, it would be dangerous.

Q. What rate do you pay on the share capital? A. Five per cent.

Q. Is there any bonus added to that? A. No.

Q. Is there any entrance fee required from caisses locales over and above the subscription? A. Yes. Nothing is required for the first \$500, but for the other \$500 we require 20 cents per \$5.

Q. If I understand the set-up correctly, do caisses locales under your supervision lend any money to others than cooperatives for industrial or commercial purposes? A. I may tell you that usually it does not happen, but unfortunately sometimes it does; it is the exception. We make small loans. I know that banks do not loan money on mortgage, do not like to loan money to cooperatives. They are interested in small loans only since a few years.

Q. Do caisses locales pay any commission to the union regionale for the exchange of cheques for the clearing office?

A. Banks charge us for exchange of cheques and we charge the caisses populaires for what banks charge us, and the caisses populaires pay one-tenth of one per cent of their assets to help to maintain the organization.

Q. Does the Union regionale write any insurance for caisses locales or members of caisses locales? A. No.

Q. No kind of insurance whatsoever? A. Not at the present time.

Q. Is there any project? A. Yes, and here is the reason: in the rural district, isolated people are not easily insurable and insurance rates are prohibitive. Of course, there are mutual insurance concerns but the limit is \$2,500 only; there are members who have properties amounting to as high as \$10,000. We thought of that.

Q. I see in the documents on file that there are members and affiliated members? A. No, auxiliary members. They are minors, children, married women dependant on their husbands and those who left the place. For instance, here is somebody who resides in Quebec city and takes up residence in Lévis. As he has shares in Quebec he will remain in his caisse in Quebec but he will become an auxiliary member. He will not be able to get any money from the caisse; he will come to meetings but he will not be able to become a director.

Q. Under what conditions can bodies such as school or municipal corporations become members of a caisse populaire?

A. The same as an individual, \$5 per partnership share.

Q. Have you any figures about the ratio of losses in your caisses regionales? A. In caisses regionales or generally?

Q. In the district? A. I had calculated them a few years ago for the whole province; they were less than a fortieth of one per cent.

Q. Would there be any inconvenience to payments, to patronage dividends being remitted to borrowers at the end of every financial year? A. Many caisses do so; now, as to patronage dividends, we must know what we mean. I may loan money at a higher rate of interest and say: "I will give a patronage dividend" or I will loan money at once at a lower rate of interest and it ends there. We have to be careful if we loan money at too low a rate and if the rate goes up . . . We must always have a reserve fund; there is always the

possibility of incurring a loss. We know it from experience during the other way. The main thing is that the law compels us to have a reserve fund, and the law says that such a reserve fund -- so that nobody could lay hold of the reserve fund -- can never be distributed between members if the caisse gives out business. Suppose a caisse having \$500,000 in reserve fails and the people say: "Let us liquidate, divide that and start anew." It is specified by the law that if a caisse liquidates, the money shall be distributed by the Lieutenant Governor in Council to a charitable institution.

BY THE CHAIRMAN:

Q. Do you think a patronage dividend should be paid during the year it has been gained? A. Yes, in general. We should not forget that those who start a cooperative are not millionaires; they are beggars who need it to improve their lot. A moment ago, the Cooperative Hatchery was mentioned

Q. It is a recognized principle? A. Yes.

Q. Because you say, "if there is an excess of surplus savings, after provision is made for the payment of interest on savings deposits, administration expenses, for the reserve . . ." A. We go even farther than that; anybody wishing to raise the rate of interest on borrowers to get more money, to give more to the shareholders, could not do it, you have to benefit both; if you wish to raise one you have to lower the other.

Q. It amounts to the same thing? A. No, it is not the same one who benefits by it; one is richer and the other is poorer.

BY MR. NADEAU:

Q. Who decides on the patronage dividend? A. It is the general meeting.

Q. On the recommendation of the board of directors?

A. Yes.

Q. Were there many cases of liquidation of caisses?

A. No; there were perhaps 9 or 10 liquidations of caisses, which turned out badly. I may tell you that since 44 years there were 77 or 75 caisses which were established and which were closed. Nine of them were closed because they had not observed the rules.

Q. I would like to have your opinion on a certain matter; whether you see any big difference between the operation of caisses centrales and the operation of investment undertakings, mortgage undertakings, investments in municipal, religious or Government bonds? A. Trust companies or banks?

Q. Investment companies in general? A. We do no such things as trust companies' business; investments come second. At the present time; we are compelled to make a good deal of investments; everybody has their pockets full of money.

Q. We noted that investments far exceeded usual loans. A. Yes, that is what is going on at the present time; it happens in the banks, everywhere. But the post-war period is bound to come and it is well to have liquid money easily realizable; we must remain realists. During the other war, I was with the Caisses populaires; I saw what happened. If all our money was put in mortgage loans, we would be frozen. Now, people instead of borrowing money, hand us their money; their pockets are full of money, there is plenty of money, but it will not be so plentiful after the war.

Q. Do you think that the caisses could be more useful by helping members to buy Victory bonds, to build up personal savings rather than by building reserves for themselves?

A. I will give you a concrete example; we have in the hands of caisses populaires \$31,965,000 of Victory bonds. The

caisses have 13 millions of these 31 millions; the balance belongs to members. A moment ago, someone not aware of the inside mechanism of the caisses was asked: "Do caisses populaires help people to buy bonds?" Yes, we do at three per cent and we do it gladly to help our country and to help ourselves. During the first loan \$500,000 worth of bonds were bought, and during the last six months, for \$8,180,000. The caisses have \$3,106,150 of the 8 millions; the balance belongs to our members. We encourage them to buy bonds, we educate them with that objective in mind.

BY MR. LACROIX:

Q. The caisses regionales you have just mentioned are legal entities distinct from your caisses locales. You have pointed out to Mr. Brossard a moment ago that your undertaking towards members and caisses locales is to pay 5 per cent on the share capital and two and a half per cent on deposits. Once such operations are concluded, you have necessarily a surplus. I would ask you to submit a copy of the Caisse Centrale's balance sheet. A. Yes.

Q. That reserve you have and which of course belongs to the Caisse regionale does not belong any more to your members? A. Yes, it belongs to our members.

Q. You say there is no patronage dividend; you have said in reply to Mr. Nadeau that there was no patronage dividend. A. There is no patronage dividend; it is 5 per cent on the share capital.

Q. And two and a half per cent on deposits, that's all? A. Yes.

Q. Now, the reserve you have and that I would like to examine in your balance sheet is not distributed between your members? You are keeping it as a reserve and where will it go? A. In case of losses, it would be used to make good

our losses.

Q. Members cannot identify in that reserve a share which may some day come back to them as operating profits?

A. No, because all are on the same footing. Now I will also make a distinction: we do not follow the same line of argument; you look at it from the capitalist point of view whereas I look at it from the cooperative point of view. Before paying 5 per cent, the Government compelled us to set up a reserve fund and with the difference you are able to pay a bonus. So, if the bonus does not enable one to pay 5 per cent, it is only four.

Q. But when your 5 per cent is paid as well as your two and a half on deposits, you have a reserve fund? A. We are compelled to.

Q. In the case of a caisse locale or of an ordinary cooperative, is such reserve identified as the members' property? A. No; the law says that in the event of winding up of business it will go to the public charities.

Q. And the "Caisse regionale" constitutes an absolutely distinct body, benefitting by reserves? A. Yes, it is a syndicate.

Q. You spoke of loans made for industrial purposes, that were the exception, the rare exception. Is there anything in your by-laws preventing this? A. Our by-laws state that we should not make hazardous, risky loans.

Q. This applies not only to industrial loans; there are mortgage loans that are hazardous? A. Yes.

Q. But there is nothing prohibiting the destination of an investment, it is the risk element that must be taken into account? A. No, not only the risk element; we do not wish to engage in operations pertaining to banks.

Q. In practice, you do not want to do it, even though there is nothing preventing you from doing it? A. It is very

dangerous; the caisses that tried it have come to naught.

Q. May the auxiliary members borrow from the caisses to which they belong? A. They are members who have left the locality, women who must be assisted by their husbands. I live in Levis, I come to reside in Quebec, I want to borrow in Quebec, I may borrow in Quebec.

Q. Can you borrow in Levis? A. I may, but the caisse does not do it, because in the questionnaire one is asked, "have you any outstanding loans with other caisses."

Q. There is nothing in the by-laws prohibiting it?
A. No.

REVEREND FATHER GEORGES-HENRI LEVESQUE, O.P.,
Dean of the Faculty of Social Sciences, of Laval
University, at Quebec, being duly sworn on the
Holy Evangelists, deposes:-

BY MR. BROSSARD:

Q. What office do you hold on the "Conseil Supérieur de la Coopération"? A. I represent the faculty of social sciences on the Council, and I am a member of its board of directors.

Q. Must I infer that you have taken an active part in the organization and creation of the "Conseil Supérieur de la Coopération" (Superior Council of Cooperation) of the Province of Quebec? A. Yes, with several fellow cooperators I took part in the founding of the "Conseil Supérieur de la Coopération."

Q. And that goes back to what date? A. April, 1939.

Q. And since then, the Council has continued to exist? A. Yes, and it has developed. I was its first chairman and remained so until October last.

Q. With reference to this memorandum which you are

submitting, I see in the introduction that you state that the Council is composed of three classes of institutions?

A. Yes.

Q. The first class is composed of institutions dealing with the practical side of cooperation. And so, I should tell you immediately that consumer cooperatives have been represented and heard through their Alliance; that the agricultural cooperatives were so represented and heard through the "Cooperative Federee"; the fishermen's cooperatives, through the "Pêcheurs-Unis de Quebec"; the mutual life societies, through the mutual insurances at Ottawa, and that the caisses populaires have been represented and heard here, as they had been in Montreal. Should I take it that by your memorandum it is your purpose to represent the opinion of this class of cooperators? A. Yes, because this memorandum expresses the opinion of the entire Superior Council of Cooperation. All the members are supposed to approve of its findings.

Q. Was the memorandum submitted to all these various organizations, such as, the "Alliances des Cooperatives de consommation", etc? A. Here is what took place: the substantial resume which was addressed to your Commission, at the beginning of January, was also addressed to each member of the Superior Council of Cooperation, that they might take cognizance of it. There followed a meeting of the Superior Council of Cooperation, when none of the members took any objection to it. This resume was eventually amplified somewhat into the present memorandum, but without any substantial modification being made to it. As it is, this memorandum has been submitted to the chairman and approved by the Executive.

Q. In short, this memorandum is the expression of the opinion of the members of the Superior Council of Cooperation, but it does not necessarily represent the opinion of all those organizations? A. Pardon me, it represents directly the

opinion of all the members of the Superior Council of Co-operation and indirectly the opinion of each of the institutions which compose the Council, because each one of the members of the Council, who represents one of those institutions, is supposed to represent the opinion of that institution.

Q. Here is my reason for asking that question: without wishing to anticipate on the reading of your memorandum, I note that in one place you state that it is not the policy of the Council to advocate integral cooperation. Now, at Montreal, Mr. Victor Barbeau, who represented the "Alliance des Cooperatives de Consommation" stated, on the contrary, that it was the ambition of true cooperators to, some day, attain integral cooperation. A. If there is a contradiction, I do not think it should be attributed to the memorandum of the Council. Moreover, Mr. Barbeau himself has had this memorandum and he did not disapprove of it.

Q. With respect to the institutions mentioned in paragraph (b), has the memorandum been submitted to them?

A. I cannot say. I was concerned with addressing the resume to each representative, but it was up to the latter to submit it to his own institution.

Q. And so, you are not in a position to assert that this memorandum is the formal expression of the opinion of, say, the "Ecole d'Agriculture" of the University of Montreal, or of Macdonald College of McGill University? A. No, because I cannot assert that Mr. Alexander Sim, for instance, took the matter up with the institution he represents. That was his business.

Q. All right, if you wish, we will hear you read your memorandum. A. Before I do so, I wish it to be noted that I am not acting as the official representative of the Faculty of Social Sciences of Laval University of Quebec, nor as the

representative of the clergy of the Catholic Church; I am here as a humble citizen, the official delegate of the Superior Council of Cooperation of the Province of Quebec.

Memorandum Presented to The Royal Commission
on Cooperatives by

The Superior Council of Cooperation of the Province
of Quebec:

Contents:

Introduction:

- I - What the Superior Council of Cooperation is.
- II - The Council and the Royal Commission.

Brief:

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- 1 - In relation to the national economy;
- 2 - What the movement consists of;
- 3 - What a cooperative is.

Part Two: Cooperative and profit -

- 1 - What profit is;
- 2 - Is there profit in cooperative;
- 3 - Commercial operations and cooperative operations;
- 4 - The case of non-members;
- 5 - Reserves in capitalistic and in cooperative enterprises.

Part Three - Moral and social contributions of the cooperatives to the common good --
Cooperation is:

- 1 - A source of personal education;
- 2 - A movement for family welfare;
- 3 - A means of civic and social education;

- 3 - A means of civic and social education;
- 4 - A first-hand training in democratic principles and methods;
- 5 - A school of national unity;
- 6 - A factor for peace;
- 7 - A factor for social security.

Conclusion: Taxes and distributive justice.

I n t r o d u c t i o n

1. What the Superior Council of Cooperation is:

1 - Its foundation: in April, 1939.

2 - Its headquarters: Quebec.

3 - Its purpose: to work for the unification, the protection and the sound development of the cooperative movement in the Province. Also, the Council collaborates with the Cooperative Union of Canada and the International Cooperative Alliance. Finally, it is intended, and eminently fitted, to serve as the representative of the cooperative movement before the public authorities.

4 - Its nature: The Council is not a federation of cooperatives for carrying on their transactions, and it has no power to interfere in their internal workings. Its purpose is moral and educational. It was founded by representatives of certain cooperative movements, and institutions engaged in reaching and propagating the idea of cooperation, to serve as a bond of union between them and a guide in the carrying out of the cooperative ideal.

5 - Its composition: three groups of institutions are represented on the Council:

(a) Cooperatives proper:

The consumer cooperatives (120, of which 65 are represented by their Alliance);

The agricultural cooperatives (595, of which 385 are represented by The Federated Cooperative);

The fishermen's cooperatives (29) represented by The United Fishermen;

The mutual life insurances represented by the Union des Mutuelles;

The Maple Sugar Producers.

(N.B. The Federation des Caisses Populaires (880), although not officially represented in the Council, may be considered as being morally related to it; certain accidental obstacles only prevent this representation desired by the majority of members. Furthermore, about twenty recently formed housing cooperatives are actually attempting to organize a federation, which would be represented in the Council. The same is true of about twenty students' cooperatives.)

(b) Institutions engaged in the teaching of cooperation:

The Faculty of Social Sciences of Laval University;

The School of Agriculture (Oka) ~~of~~ of the
University of Montreal;

Macdonald College of McGill University;

The Social Centre of the University of Ottawa
(through its work in the Gatineau region)

The Social Economic Service of Ste. Anne de la
Pocatiere.

(c) Institutions engaged in propagating cooperation:

The Catholic Union of Farmers;

The Corporation of Agronomists;

The Cooperative Branch of the Department of
Agriculture of the Province of Quebec;

The Confederation of Catholic Workers of Canada.

6 - Its principal activities:

(a) Congress: Each year the Council organizes the general convention of members of Quebec cooperatives. About

a thousand delegates from all parts of the Province and representing all types of cooperatives, attended the last convention.

(b) Publication of treatises and brochures on cooperative principles and methods;

(c) "Ensemble", a review devoted to the cooperative movement and which has been published monthly for the past five years. Its present circulation is 7,000;

(d) A library service maintained by the Council for members of cooperatives;

(e) Consultations, orally at the Secretariat, or by correspondence;

(f) Research into the application of cooperative principles to local needs.

7 - Its Importance: The status of the Council is, we believe, sufficiently indicated by its purpose, its activities and its representative character. Taking into account membership of cooperatives only, but bearing in mind that more often than not a member means a household or family, it is safe to say that more than one million persons in the Province of Quebec are interested in the cooperative movement, and that the Council is morally authorized to speak on their behalf:

II - The Council and the Royal Commission:

At the last general convention of cooperators organized by the Council, on October 6, 7 and 8, 1944, a resolution was adopted requesting the appointment of a Royal Commission to inquire into the situation of the cooperatives in the matter of taxation. Consequently, the Council was glad to learn that such a commission had been appointed, and it is happy to submit the present statement to the honourable commissioners whom His Majesty has been pleased to appoint.

Brief of the Council

Compendium of the brief: It did not seem to us to be necessary in this brief to discuss the existing fiscal legislation, by way either of interpretation, criticism or suggestion for amendment.

We shall try to set out as exactly as possible the essential characteristics and methods of the cooperatives, and the nature, role and advantage of the cooperative movement.

We feel that we can best serve the Commission, and the cooperative movement at the same time, by seeing that the movement is clearly understood, and by providing the Commission, as also our legislators and the officers who administer the law, with complete and accurate information, so that they may be in a position to deal fairly with the cooperatives - and having done that, to rely upon their sense of justice in the interpretation of the law, or in its revision if that be considered necessary.

Our brief, thus limited, falls into three parts. The first consists of a general explanation of the cooperative movement and principles. Then, the main point at issue being the taxation of the alleged profits of the cooperatives, we discuss the question whether cooperatives do make a profit properly speaking. And finally, assuming there are no taxable profits in cooperatives but that certain people, by way of continuing their attack upon cooperatives, propose that another way of taxing them should be found, we submit that it would be wrong to put a cooperative, whose purpose is service, on a par with a company, whose purpose is profit, and considering also that, apart from the financial contributions of a cooperative to the common good, the other contributions - social, moral and civic - are often more important than others. In the third part of our brief, we

shall speak of these last contributions which cooperatives, by the very nature of the organization, contribute in a most unique and excellent way to the common good of the country.

To summarize, the three parts of this brief are:

1. A general explanation of the cooperative movement and principles;
2. Cooperatives and profit;
3. Social and moral contributions of cooperatives to the common good.

P a r t O n e

General Information on the Cooperative Movement and its Principles

After having (1) - set the cooperative movement in the economic structure of the country, we shall (2) - say in what it consists and then we shall finally study (3) - the cell which acts as its basis; the cooperative.

The cooperative movement in relation to the national economy.

All attentive fact observers quickly notice that our economic life is not of a unique form. The economy of our country is multiform. To use an accepted term, it is a mixed economy as elsewhere in the greater number of countries. Dr. Fauquet distinguishes four principal sectors in the actual economic structure:

"a) The Public Sector: comprising all the enterprises of which the State and eventually the secondary units of public right (municipalities, etc.) assume the administration either directly or by delegation. To this same sector belong the organizations by which the central power aims to exercise the general direction of economy or of certain of its branches;

"b) The Capitalistic Sector: comprising all the enterprises where private capital dominates, which bears risks

prises where private capital dominates, which bears risks and claims profits;

"c) The Strictly Private Sector: comprising the non-capitalistic units and activities of household economy and peasant and artisan economy;

"d) The Cooperative Sector: comprising all the forms of cooperation already bound together or tending to be bound together morally and economically."

"The Cooperative Sector" is in close relation to the strictly private sector. Every type of cooperation is essentially built up from small household economy and peasant and artisanal economy. The result is that in as much as the co-operatives increase their effectiveness and complete their organization, the Cooperative Sector and the Strictly Private Sector tend to constitute but one system. This system, however, is one of federated structure made up of small basic units united for their common good yet all maintaining their own autonomy.

"The relation of the Cooperative Sector to the other Sectors is of another nature:

"a) to the "Capitalistic Sector"; One of competition and rivalry. Commercial transactions, however, are carried on with it in national economy and on international markets;

"b) to the "Public Sector": Complex and variable relations according to the degree of development of the cooperative institutions and the political and economical orientation of the state". (1)

(1) Dr. G. Fauquet, Le Secteur Cooperatif, Bale, 1943. (pp.14-15)

After this explanation it seems timely to remark that Quebec cooperators do not harbour the utopian ideal of integral cooperation. (2) as realists, they well know that they can

never occupy more than one economic sector of the economic structure and they are content with that. Whenever cooperatives feel that the common good can best be served through public or capitalistic enterprises rather than through co-operatives, they leave the field free to the State or to capitalistic enterprises."

(2) Dr. Fauquet, former Head of the Service of Cooperation at the International Labour Office, has followed the developments of the cooperative movement throughout the world for the last thirty years. Several excerpts from an article he published in *La Revue des Etudes Cooperatives*, October-December 1939, pp. 3,4,5, prove our statements:

"In Switzerland, retail trade is evaluated at three billion, two hundred millions. In round figures, the distribution may be made as follows:

Small merchants and artisans	77 per cent
Cooperative societies	12 per cent
Capitalistic societies	11 per cent.

Thus, whether we speak of grocer businesses or retail stores in general, independent business represents $\frac{2}{3}$ or $\frac{3}{4}$ of the total.

It is to be remarked that this proportion does not apply to Switzerland alone. We find it in all countries furnishing us with details: from Great Britain where the cooperative movement is already a hundred years old, to the United States where the consumer cooperative movement is still weak. We find the same proportion in Holland and France. What varies from one country to another is just the proportion in which the third or fourth left is divided among the cooperative societies and the purely capitalistic enterprises, that is to say: large stores and chain stores.

In Switzerland, the shares are almost equal, and even the cooperative share, 12 per cent against 11 per cent is a little heavy.

In Holland 9 per cent for cooperatives, 14 per cent for capitalistic companies.

In Great Britain, the cooperative movement, in spite of its considerable dimensions, is outdistanced by capitalistic enterprises: 10 to 12 per cent for cooperatives and 20 to 22 per cent, which is almost double, for capitalistic enterprises".

And now, we have the formal opinion of the Superior Council of Cooperation. I may even add that the Council has always been eager to work against what is called fanaticism. Fanaticism can creep into Cooperation as well as into socialism and elsewhere. But we endeavour to show our people that co-operation is only one means, one system, and that, like all means and all systems, it is made for all men. What we are interested in, as cooperators, is to serve the people. If, on the whole, capitalistic enterprise can best serve the people, then, by all means, let us follow capitalistic enterprise, but if cooperative can better assume such service, then let us follow the cooperative system. In our brief, we have included as a reference, an article written by Dr. Fauquet in 1942, and I think it might be important for me to read it so as to prevent certain persons from getting unduly frightened by the progress of the cooperative movement.

(2) (cont'd)

"Here is my first observation:

All development is limited by the obstacles caused by its very growth.

This is a very general proposition, yet one that can be

proved by numerous examples borrowed from the physical world, the living world or social phenomena.

For example, inflate a foot-ball. The first strokes of the pump are easy to make but they become increasingly difficult. That is because the result obtained by each stroke is an obstacle for the next.

Our development has already passed through its easy period. That was the period when private businesses made big profits. The material advantages of cooperation were then manifest; the cooperatives distributed to their members large patronage dividends. Then, under the very pressure of competition, independent business lowered its prices and cooperatives reduced their patronage dividends. The process is not yet finished. It is being repeated and continued in every locality where cooperatives appear for the first time and in every new branch of commerce in which existing cooperatives are active.

To this competition of cooperatives there was added afterwards against independent business and also against the cooperatives, the competition of strictly capitalistic forms of business. These also found their limitations.

No economic form can, in a period of competition, pretend to supplant and eliminate ^{all} the others. A process of waiting must occur during which they limit one another. Permit me to use as a comparison which is perhaps more than a comparison: in the deep waters of a lake an equilibrium is established among the carp, perch and pike. At times this equilibrium becomes disturbed to be again re-established.

The truth is that each form of retail trade has its own merits permitting it to live, to persist or to develop itself, but only in the directions in which its merits surpass those of other forms.

For this reason, we should form the idea of a variable equilibrium wherein intervenes - at different degrees according to the different branches of retail trade-professional capacities of artisans and small businesses, financial power of capitalistic enterprises, finally, in the case of co-operatives, the education of the cooperators, their active solidarity, their fidelity to the common work."

But they also know that often cooperatives are the best means of serving the people; that the State would find it most advantageous to assign to them certain tasks which they can accomplish, tasks which are a burden to the State; and finally, that competition with cooperatives may put an efficient and powerful brake on the abuses to which capitalistic enterprises are inclined when left alone. For these reasons, cooperators therefore claim the full right of competition. Furthermore, if the Capitalistic Sector attempts to deny to cooperators the liberty of initiative, of competition and of association, it only refuses to others and contradicts the fundamental principle on which it was built.

Let us finally remark that the Cooperative Sector, which has a character that is at the same time personal and social, keeps, so to speak, to the middle road between the individual tendencies of capitalism and the socialist forces of the modern state. And if, on the one hand, the latter can count on Cooperation to help it restrain the encroachments of capitalism, on the other hand, the former may also count on it as the best rampart for opposition to the invasion of socialism. Then the Cooperative Sector may thus play the role of shock absorber (tampon) and be a factor of equilibrium in our economy.

2 - What the Cooperative Movement Consists of:

There may be cooperation for consumption, production (agricultural) cooperatives, fishing cooperatives, etc....) savings, credit, insurance, housing, transportation, electrification, telephone services, etc... In each of these fields cooperators generally begin by forming local cooperative units, which may federate at a later date (Vertical Integration) v.g. the agricultural cooperatives and the Cooperative Federee. On the other hand, institutional relations may also be established between a producers' cooperative federation and a consumers' cooperative federation (Horizontal Collaboration). Finally, all kinds of cooperative organizations may unite, morally and educationally, in a general Council, as is the case with our Superior Council of Cooperation.

The cooperative movement is then the ensemble of all these cooperative institutions inasmuch as they are organically bound one to another by economic or moral ties, but always according to a federated structure exacting from the highest as well as from the lowest the same respect of autonomy and the same principle of equality in control. We may thus speak of a provincial cooperative movement, as well as of a national cooperative movement, provincial movements being about to join the Cooperative Union of Canada. We may even say that there is a world cooperative movement; indeed, at its Twelfth Congress in 1927, in Stockholm, the International Cooperative Alliance clearly affirmed the moral unity of every type of cooperative everywhere. (1)

3. What a Cooperative Is:

The call from which comes all the life of this movement is the cooperative. What exactly is a cooperative? The Manifesto of the Superior Council of Cooperation defines it as follows: "A free association of persons owning an economic

enterprise which they direct and control democratically for their own service and for the service of all."

This definition points out that there are two distinct yet equally essential elements in the cooperative institution, the one, social, the other, economic.

(1) I.L.O.: Cooperative Organizations and post-war relief, p.12.

1. An Association of persons who have recognized and who continue to recognize, on the one hand, the similarity of certain of their needs and, on the other hand, the possibility of better satisfying these needs through a common enterprise rather than through individual means; 2 - a common enterprise, the particular aim of which is to meet exactly the needs to be satisfied. (1)

Then comes the rules of organization which define the social relations of shareholders within the association and the economic relations of each one of them with the enterprise. (2)

(1) The expression "at the service of all" means that not only does the cooperative leave its door open to all -- cooperators entering late receive the same treatment as those who first joined -- but also that it is a factor of economic stabilization the good effects of which spread to the whole population as we may see by the example given in the magazine "Ensemble", April, 1943, page 7. This article related the history of the Consumer Cooperative in Thetford Mines. Upon the declaration of war in 1939, a great effort was made by independent bakers to raise the price of bread from \$0.14 to \$0.16. The cooperative did not see what could justify this rise in price. The price was kept at \$0.14 up to the time this article was

written, that is in 1943. This represents a saving of \$0.03 per day per family, taking an average of one and a half loaves a day per family, that is \$32.85 per family for three years. The town of Thetford has a little less than 3,000 families. The result was therefore a global saving of \$98,580. for its population on the one article, bread. Add to this amount what the readjustment of prices for a popular similar to that of Thetford could result in for other merchandise as well, and you have an idea of the social work for the common good that a consumer cooperative can accomplish, not only for its members but for the whole population.

(2) G. Fauquet, Le Secteur Cooperatif, p. 19

All cooperative principles are based upon these two relations.

Then, because a cooperative is an association of persons and not an anonymous capital stock company, it grants but one vote to each member no matter what amount of capital he may supply. This eminently democratic principle gives each cooperator an equal right in the control of the enterprise and prevents it from falling into the hands of the biggest stockholders. The cooperative association being essentially one of persons (and not of shares) open membership is strictly respected.

On the other hand, the cooperative is an economic enterprise founded solely to serve, to meet the needs of its members who are all its "users".

For example, when farmers bring their milk to their cooperative butter factory, there exists a direct relation between the aim of the enterprise and the particular nature of their common needs. On the other hand, whenever a non-farmer decides to become a shareholder in a butter factory, he does not because he has milk to be made into butter, i.e. to satisfy

a need, but because he has decided in favour of the return and the security of his investment.

Therefore, what binds the shareholder to his cooperative enterprise is service to him as "user", whilst that which binds the shareholder to a capitalistic enterprise is profit on invested capital.

From this we conclude that the sole aim of cooperatives is the satisfaction of the needs of its members. Consequently its principal rules of activity are to increase the quality of services rendered, to decrease their cost (limitation of interest on shares), to divide surplus earnings according to the amount of their transactions. In fact, whether the common service is one of buying, selling, transformation, credit, transportation, etc., the cooperators must defray the cost, To facilitate their administration and not to enter into competition with other types of enterprises by engaging in a price war, cooperative societies have adopted the method of transactions made at the current price. If, at the end of the fiscal year, there is a working surplus, it is because the amounts kept exceed the real cost of services rendered. This surplus, which constitutes the profit in a capitalistic enterprise, is here only an overpayment or surplus savings resulting from the use of the method of transactions at market price.

The use of this method does not in any way change the nature of cooperative enterprise, the aim of which is to provide services at cost.

The price of services paid for by the shareholders at the time transactions are made is only a provisional settlement rectified later by the distribution of surplus earnings according to the amount of transactions made. (1) These overpayments (or patronage dividends) are therefore economies.

Because they have not sufficiently studied the nature of a cooperative enterprise, some people in certain places still confuse these personal economics with profits made by the enterprise. The error will be better understood if we analyse the idea of profit with regard to cooperation. But before tackling this problem, let us make a resume of our brief study of cooperatives:

1 - The essentially personal and human character of this institution (which indicates that one must be sociologist as well as an economist to understand cooperation);

2 - The essential aim of its activity: Service.

P a r t T w o

Cooperation and Profit

We have said that the surplus earnings of cooperatives are distributed to members according to the amount of their transactions. What does this really mean? Are they really profits and therefore taxable revenue?

1 - What profit is:

One of the reasons why a common answer cannot be given to these questions is the very equivocal meaning of the word "profit". It has been given varied meanings according to one's interests, culture, or, again, ignorance. And so some say that cooperatives make profits while others deny this.

Yet the majority of economists agree on the definition or the description of "profit", although they still discuss its legitimacy. However, there is no question here of justifying or of condemning "profit". It is sufficient to know what economists generally understand by this word.

(2) Dr. G. Fauquet, 'Le Secteur Cooperatif, Bale, 1942, (p.65)

Profit, they say, is the surplus of the selling price over the cost price. Evidently this definition requires analysis. Let us take, for example, the case of a large manufacturing company. In its cost price, it will include the wages of the workers, the salaries of the engineers, the manager and the directors, interest payable on capital, rent, administrative costs, insurance, etc... Profit will be the surplus left after the total cost price is deducted from the selling price.

2 - Is there profit in a cooperative?

Does this profit exist in a cooperative? We do not think so because the essential nature of a cooperative is to eliminate profit in this sense of the word.

a) In a Consumers' Cooperative, cooperators together buy a stock of merchandise which becomes their collective property. From then on, whenever a member goes to the cooperative store to get provisions, we cannot say that he "buys" in the capitalistic sense of the word. He takes an article which belongs to him as well as to the other cooperators. But in order to establish an equilibrium he must leave enough money to cover the selling price of the article (buying price plus administrative costs). In fact, he is asked to leave an amount equivalent to the market price of the article. This includes not only the administrative costs but also the merchant's profit. That is to say that in paying the current price, cooperators pay too much to their manager. It is precisely this surplus which is returned to them at the end of the fiscal year, not in proportion to the shares, but in proportion to the transactions they have made through the cooperative . . . Then the more one has "bought", the more he has contributed towards the increase of a surplus. Who can say there are really profits here? Cooperatives aim only to serve the cooperators (to "sell" them) at cost price.

b) In a Producers' Cooperative, let us say in a cooperative butter factory, the farmer cooperators bring their milk to have it made into butter by technicians whom they hire and machinery they own in common. The sale of butter will also be made collectively. But the revenue of this sale (less salaries and administrative costs) will be returned to the cooperators in proportion to the amount of milk brought. The cooperative only supplies the cooperators the service of transformation and the sale of the butter at cost.

The same reasoning may be applied to the other types of cooperatives.

3 - Commercial operations and cooperative operations:

Jurists and economists (1) confirm what we have already said. According to them, commercial transactions must have the true following conditions:

1 - The idea of circulation: commerce is the circulation of raw or manufactured products;

2 - the idea of middleman (intermediary): the dealer acts as intermediary between the producer and the consumer;

3 - the idea of speculation: there is always the motive of profit in a resale.

Let us consider whether a cooperative transaction meets these three conditions.

1 - The idea of circulation. It is clear that the idea of circulation applies to cooperative transactions as well as to ordinary commercial ones.

2 - The idea of middleman. In an analysis of the cooperative, we see that if it acts apparently as an intermediary between the producer and the consumer, it does not do so in the nature of a third party as in an ordinary commercial trans-

(1) Antonio Ferragut, *Traite de Droit Commercial*, Tom II, p. 605, No. 1148. A.P. Pigou, *Socialism versus Capitalism*, Ch. 1, Macmillan, London, 1938.

action. From an economic point of view, a cooperative enterprise is but an extension (continuation) of the farm, or the household, as the case may be. When the farmer brings his products to his cooperative, his sole intention is to sell his products without having to pass through a middleman.

From this point of view, there is a difference between an agricultural cooperative which sells the products of its members and the farmer who goes to sell his own products on the public market. Both avoid the middleman. The consumer does likewise. Instead of being the customer of an independent business concern, he is the "user" of his own enterprise.

It is true, however, that from the legal point of view, cooperative constitutes an entity distinct from its members. But from the economic point of view, that does not change anything in the nature of its operations: it is not the cooperative which buys or sells but the cooperators who use a common service of buying and selling.

3 - The idea of speculation. In a cooperative there is no idea of speculation since speculation implies the aim of profiting on the resale. In a cooperative there is no resale since, from the economic point of view, the cooperative cannot be considered as a third party, it is a third party which only registers earnings to the personal account of the cooperators.

It therefore appears that:

a) Purely cooperative transactions cannot be considered as commercial transactions. This conclusion, moreover, is confirmed by the general act of cooperatives for the Province of Quebec which states precisely that "all cooperative activities shall not be deemed to constitute the carrying on of a trade, financial establishment or means of earning a profit". (1)

(1) An Act respecting Cooperative Syndicates, R.S.Q., 1941, ch. 290, sect. 6.

(b) Cooperatives do not make profits and therefore should not be taxed.

In taxing them, its members would be subjected to a double personal taxation since they ^{are} already taxed individually under the Income Tax Act. And since the majority of them have insufficient personal income to be affected by this Act, it would be unjust to subject them, because they are co-operators, to a taxation which would not affect non-cooperators. Let us take, for example, the case of two farmers. One is a member of a cooperative. At the end of the year, he has made a net income of \$200 of which \$50 comes from savings-returns or patronage dividends. The other, who is not a member, earns the same net income. Supposing that the amount of his income is too small to be taxed, the cooperator would be unjustly taxed on his patronage dividend.

4 - The case of non-members:

The question of whether or not cooperatives carry on commercial transactions and make profits when they do business with non-members depends so much on circumstances proper to each type of cooperative enterprise that, after an agreement with their representatives, we have deemed it fit to leave them answer for themselves.

5 - Reserves in capitalistic and in cooperative enterprises:

We believe that we have shown that all the surplus earnings which result from cooperative transactions are

purely economics and not profits and that they are the individual property of cooperators and not of their cooperatives. We must now examine in which way they can be distributed.

Four methods of distribution are possible:

- a) To distribute them as savings-returns;
- b) To set them aside as collective reserves;
- c) To convert them into preferred capital or individualized reserves;
- d) To use them for social undertakings.

We leave to each sector the care of explaining in which manner and to what extent they use (whether simultaneously or not) one or the other of the above methods. We shall here limit ourselves to general considerations.

a) As cooperators have the right of meeting together in a general assembly to distribute the surplus earnings, they are free to apportion them as they wish. If they decide to distribute all these surplus earnings as savings-returns, there is no question of taxing them since, as we have mentioned above, they become the individual property of cooperators and not of the cooperative.

b) It happens, however, that they are obliged by law to set aside a certain amount of the surplus as collective reserve. That is the case with the caisse populaire which is obliged by law to "apply at least ten per cent of its annual profits to the creation of such funds (reserves) until they have reached, by successive annual allocations, an amount equal to at least the maximum of the liabilities represented at any time by the shares of the association and any other resources thereof ..." (1) In other societies, even if there is no legal obligation to this effect, cooperators understand the necessity of ensuring the efficiency and the permanency

(1) An Act respecting Cooperative Syndicates, R.S.Q. 1941, ch. 290, sec. 39, sub-section 2.

of their services, and ordinarily agree, upon the advice of their directors, to yield a portion of their economies to the common enterprise, although this policy does not result, as in capitalistic enterprises, in an increase in the value of the capital stock.

Some will object, perhaps, that the practice of cooperatives, insofar as reserves are concerned, does not differ from that of capitalistic enterprises, the result being the same from the financial standpoint of the enterprise. There exists, however, a fundamental difference inherent to the nature of each of these two enterprises.

In capitalistic enterprise, the right to reserves being attached to the capital stock, these reserves exercise a direct influence on the value of the capital stock. This is a fact observable every day. They may be distributed among the shareholders as complementary dividends or in other forms as free shares. The distribution is always made according to the shares held.

In a cooperative enterprise, on the contrary, the right to surplus earnings and consequently to reserves, is not attached to the share. "The share is not capital invested for profit; it is a charge imposed on the member as his contribution to the organization of the services. It is only through the use of its services and according to the proportion in which he uses these services that he will gain any advantage from being a member." (1). Reserves then do not influence the value of shares, the real value of which corresponds always to the nominal value.

(1) Dr. Philpott, *Revue des Etudes Cooperatives*, April-June, 1937, page 121.

In the case of credit societies, compulsory collective reserves can only be used for works of general interest, upon dissolution (2). If a member withdraws or if the society is dissolved, he will receive only what he has paid in.

c) Shareholders may dispose as they please of the portion they have decided to appropriate to themselves. They may cash it immediately and place it, for instance, in their caisse populaire. Very often they prefer to convert it into preferred capital or individualized reserves which then remains but a portion of the overpayments, payment of which is deferred.

d) Many cooperatives each year apply a variable amount of their surplus earnings to social work. This practice presents no difficulty insofar as taxation is concerned.

In conclusion, let us recall that the overpayments are the property of the shareholders and not of the cooperative. Now, the reserves are only a part of the overpayments and no matter how they are distributed they always are economies which the cooperators are free to do with as they will. Hence, these economies could not be taxed, especially as in certain cases this would penalize those who comply with an Act of His Majesty.

(2) In case of the dissolution of a credit association, the balance of its assets, including the fund or funds mentioned in section 39, shall be applied in the territory of the association, after payment of the liabilities of the association, to one or more works of general public utility designated by the Lieutenant-Governor in Council.

(R.S.Q. 1941, ch. 290, sec. 29, par.4.)

Part Three

Moral and Social Contributions of the Cooperatives
to the Common Good.

It is now fitting to reply to those who, seeing that cooperatives are exempt from taxation on profits, ask the public treasury to find some means of taxing them. They say even that justice demands that cooperatives pay as much in taxes as companies and they find the present situation unjust.

This contention is based on a fundamental error - that of likening a cooperative enterprise to a company. Yes, these two institutions have quite distinct characteristics and very different values. This very difference then requires a different treatment on the part of the State for taxation purposes. As a matter of fact, the State must not distribute the tax burden according to a formula of mathematical equality between institutions. It must take into consideration the nature of each of these institutions, its possibilities, its merits with regard to the common good, etc.¹ For that very reason it does not deal in the same manner with teaching institutions, commercial houses and theatres. Similarly, we feel that the State cannot contemplate taxing cooperatives as it taxes companies. Why? Because cooperatives may contribute (certainly more than companies: recall here the sad conclusions of another Royal Commission (1) morally and socially to the common good of the country as much at least as is contributed financially by companies.

1 - Cooperation is a source of personal education.

Cooperation is based primarily on self-help. It requires each one, no matter how humble he may be, to look after his own affairs, to become accustomed to rely on himself rather than

(1) Report of the Royal Commission on Price Spreads, 1934-1935.

on a middleman (intermediary) or on the State. Each cooperator being personally engaged in a cooperative association is naturally spurred on to develop his own personality that he may better face his responsibilities. He becomes his own merchant, his own banker, his own leader, his own employer. Also it is not unusual for cooperation to permit ordinary people to reveal themselves as real business men and excellent leaders of enterprise.

2. Cooperation, a movement for family welfare.

It has made it a general rule to take the family or the household as the constituent unit. It appeals not merely to the individual, but to the individual integrated in a family group. Concerned particularly with family needs and aiming at satisfying these, it thus gives the family, in economic field, its natural role of social cell, a role which individualism took so little into account.

3. Cooperation a means of civic and social education.

It is not necessary to elaborate further to realize that the practice of cooperation creates, among the people, habits of understanding, mutual help, concerted action, etc., thus providing an efficient remedy for those social evils which are individualism, class struggle, incomprehension, etc. Cooperatives also make it a duty to devote themselves to social undertakings wherever they can.

4. Cooperation, a first hand training in democratic principles and methods. Each cooperative is a miniature democracy. Each cooperator learning to better perform his democratic duty in his cooperative association is then better trained to accomplish this in his political field. Cooperatives moreover, always considered democratic education as an essential condition to their success. They make it a rule

to have democratic control and must learn how to exercise this control properly.

5 - Cooperation, a school of national unity.

Cooperators, professing undenominationalism as well as political and racial neutrality, all learn in cooperatives how to work together in spite of their religious or political divergences and in spite of their ethnical differences. Many Quebec cooperatives have members who are French and English speaking, Catholic and Protestant. These two elements are also represented on the Superior Council of Cooperatives.

6 - Cooperation, a factor for peace.

Its fundamental principle being contrary to strife and competition which result in war, cooperation forms men along lines of fraternity and solidarity. Being much more than an economic enterprise, it becomes in fact a new way of life. It is doubtless for this reason and for those listed above that the important international conferences, such as that at Hot Springs, and publications such as "Co-operative Organizations and Post-war Relief" of the I.L.O. (1944), advocate so warmly recourse to cooperative organizations in connection with post-war reestablishment.

7 - Cooperation and social security.

There is equally no doubt that cooperative associations are in a position to promote the organization and secure the better functioning of social services of assistance and insurance advocated presently by all social security programmes. In all these services the help of the interested parties is absolutely necessary. That is why if they organize themselves according to a plan where self-help and mutual help is already the basic rule, there would be better prospects that their operation and return will be ensured. Sir William

Beveridge prints this out with particular reference to sickness insurance. (1)

Furthermore, the State during the war has seen itself forced to exercise multiple controls (controls of prices, labour, salaries, etc.) If it wants to relax those controls after the war, we foresee that an absolute laissez-faire would be as dangerous as an over-controlled economy. Cooperation seems to us to afford, in the circumstances, a middle course formula. This control, to the extent to which it might be relaxed by the State, could be assumed and assured by these intermediary organizations which are essentially democratic.

C O N C L U S I O N

For the reasons herein stated, cooperatives should receive a different treatment from the State. We do not wish to imply that cooperatives should receive any special favours or privileges; simply that they be accorded the treatment they deserve.

Also to be taken into consideration is the fact that taxes levied by the State should be based specifically on distributive justice (proportional parity) and not on commutative justice (mathematical parity). The latter is one of object to object, while proportional parity is that which exists between two relations.

Thus, in the distribution of taxation imposts, justice does not require everyone to pay the same amount, but, after consideration has been given to the means and merits of each, justice exacts only that each should contribute according to

(1) Social Insurance and Allied Services, Report by Sir William Beveridge, No. 73.

his means or merits. Thus, can we not say that moral and social contributions to the common good made by cooperatives more than amply equal in value whatever financial contributions may be otherwise expected of them?

To sum up, is it not to render analagous services (education, family welfare, improved standards of living, etc.) that the State must levy taxes? The more these very services will be rendered by cooperatives, the less burden will there be upon the State and consequently the less need will it have to levy taxes.

But, because cooperatives enjoy an immunity from taxation, some are afraid that they will develop to the point of supplanting other forms of enterprises with the result that the State will eventually lose important sources of revenue.

To this objection, the history of the last century has a ready answer since it shows quite clearly that cooperation cannot invade the whole field of economy. And even supposing that it could do so, the disbursements thereby saved to the State must always be taken into consideration before concluding that it would be the loser.

Finally, upon whom does the tax burden fall if not upon the people themselves?

And, assuming that cooperation is the economic system which assures the best distribution of goods and gives to individuals the material and moral means of bettering their conditions, we do not see how the State could suffer therefrom. With more money for the people to spend, it is our belief that national revenue and consequently the taxable income will be proportionally increased.

For the above reasons, we uphold the contention of those who claim parity of treatment for cooperatives, not a preferential treatment, and we do emphasize again that this cannot be on a mathematical parity, as some would have it, but solely on a proportional parity. And, concluding this brief, we do not hesitate to affirm that if cooperatives may appear to loom as formidable competitors to other forms of enterprises, it is not due to their being the object of any special treatment but because they are the instruments which the people themselves have chosen and are now using to better satisfy their own needs."

THE CHAIRMAN: It is now five o'clock; I believe that we had better adjourn to ten o'clock to-morrow morning.

MR. BROSSARD: This brief, evidently, is a matter of opinion. I do not expect to have many questions to put to Father Levesque. There may be a few explanations required concerning certain statements of principles or of facts.

And the Commission adjourned until ten o'clock a.m. the 27th February, 1945.

Quebec, Feb. 27, 1945.
-1008- (Translation) Father Levesque

The Commission met at 10 o'clock a.m.,

Mr. Justice McDougall presiding.

Examination of Rev. Father G.H. Levesque, O.P., continued.

BY MR. BROSSARD:

Q. If you do not mind, let us go back to the first part of your brief. Among the institutions represented in the Superior Council of Cooperation, you mention some where cooperation is taught: schools, local universities, etc.

Is the teaching given purely objective, or do those institutions go so far as to advocate cooperation as a means?

A. I cannot speak with full knowledge for all those institutions. Let us say that I speak for the one of which I am the head. We teach scientifically, in the university, any subject or any form of existing economic activity. Now then, co-operative activity exists in our country and all over America. It is a reality which must be studied scientifically.

Q. You would make a distinction between those institutions and those in the third category which you describe as institutions engaged in propaganda? A. Yes. And in the former, teaching may cover capitalist institutions, socialist institutions and even Marxism, without being capitalist, socialist or marxist propaganda.

Q. Would you go as far as saying that those universities go to the length of stating that tax exemption is essential to the existence, the development or the survival of cooperatives?

A. This doctrine, to my knowledge, has not been taught in ours. But I do not say that it might not be taught. And if I had to handle the subject myself, I would -- because such is my personal belief -- feel bound to teach it. However, should another professor feel inclined to teach the reverse,

he would be at liberty to do so.

Q. To date, you have no knowledge of any teaching to the effect that tax exemption is essential to the working of cooperatives? A. No, not to my knowledge.

Q. May I ask again, has the brief you have filed been approved by the delegates from those institutions? A. This brief represents the true opinion of the members of the Superior Council of Cooperation. Moreover, these members are supposed to represent their institutions because they do not act in a personal capacity; they are there as delegates of each institution, so that when a member has to be admitted to the Council he must bring credentials to the effect that he represents such or such institution.

Q. Their opinion is supposed to represent the opinion of the institutions which they represent as delegates? A. Exactly.

Q. You state in your brief that the Council can, to all intents and purposes, speak on behalf of one million Quebec citizens? A. Yes.

Q. I suppose you include in that million the families of cooperators? A. Yes.

Q. Would you tell us, if you can, the exact number of cooperators? A. Here is the way I figured in my brief. We say that there are in the province at least 250,000 co-operators.

Q. Members of all kinds of cooperatives? A. Yes. In order to establish those statistics, we took as a basis the membership of the caisses populaires. As it may happen that somebody may at the same time belong to a consumers cooperative, an agricultural cooperative and a caisse populaire, it was the best way to count the same person several times.

And as, besides, the actual cooperative member is the family, and the average family comprises from four to five persons, we multiply by that figure and get one million. This is probably less than the actual number.

Q. Where did you get your statistics about the membership of different kinds of cooperatives? A. I asked the caisses populaires for data compiled a year ago and published in the Calendrier de la Coopération (1944). The membership of the caisses was then 225,000. This number has considerably increased since.

Q. You are submitting those statistics for the consumer and producer cooperatives, for the caisses populaires?

A. Yes, for the whole.

Q. On page 6 of your brief you state: "Moreover, if the capitalist sector tried to deny cooperators freedom of initiative, competition and association, it would amount to a denial and a repudiation of the basic principle on which it was itself erected." Do you not believe that freedom of competition implies equality in the matter of taxation?

A. Well, freedom of competition may imply equality in the matter of taxation. But according to the brief I read yesterday, it can only be a question of proportional equality. Even when it comes to determining how much tax people must pay, the rule of proportional equality comes into play. Is it not true that a big corporation with huge resources pays more than a smaller one? This principle of proportional equality is thus already accepted. Why could it not be applied elsewhere?

Q. But in this case you are talking about proportional equality from the point of view of resources? A. Yes.

Q. Don't you mention also in your brief a contribution

in proportion not only to resources but also to merit?

A. Yes.

Q. Does that mean that the citizen, according to his being good or bad, should enjoy or not total or partial tax exemption?

THE CHAIRMAN: It is rather novel principle.

THE WITNESS: It is not a question of a citizen being good or bad in the moral sense, the point is whether this citizen or this institution is useful or makes civic, social or moral contributions to the general welfare of the country. It is furthermore for these very reasons that certain enterprises, for instance educational institutions, even if they make a certain profit, do not come under the Income Tax Act. They contribute in their own way to the country's welfare. It is not therefore because an institution, in this case the cooperative, is a good institution, but because it has the merit of rendering great services to the country, that it must be, so it seems to me, situated differently from the point of view of taxation.

THE CHAIRMAN: A very hard question to decide.

THE WITNESS: Yes, because we are here on the border line of the moral -- anything dealing with social matters belongs to the moral -- and the material domain. It is always the same difficult experience when it comes to expressing in figures and statistics -- which are quantitative instruments of expression -- moral values which properly belong to the domain of quality, as contributions in the shape of education. It is a very delicate operation.

BY THE CHAIRMAN:

Q. It is very desirable but not very practical.

A. Just as it is not practical, in teaching, to use figures

in order to gauge the knowledge of students. When it is estimated, in an examination, that a student deserves 15 marks out of 20, I do not know any man clever enough to say with absolute certainty why it should not rather be 14.5 or 15.5. The trouble is always the same when you go from the economic to the moral domain.

Q. As far as taxation is concerned, do you believe the government should choose between good and bad citizens to tax them? A. I am not saying that one should choose between good and bad citizens, but I claim one must take into account all the services rendered by them, moral and social services as well as material services. So, if they are already rendering social services one may conclude: "They should perhaps be taxed less or perhaps not at all." In addition, if they are rendering such services, the government itself will not have to render them. And if it need not render them, it need not either organize them and pay their cost.

BY MR. BROSSARD:

Q. After all, we have to bear in mind the character and the amount of services in order to decide in a specific case whether it is advisable to grant, on account of these services, a more or less substantial exemption from the burden falling on the citizens as a whole? A. I think your remark is quite right. And this is the very point where the problem lies. The cooperative must be judged not only from the economic viewpoint but also from the social viewpoint, when taxation is at stake, that is distributive justice. Of course, what has to be distributed or divided, are the charges expressed in terms of money. But this distribution has to be made in accordance with justice, and then we fall into the social and moral field.

Q. Justice will be done on condition that no doubts at all be entertained about the quality of the service rendered? A. Yes.

Q. But if you cannot with the means at your disposal judge of the value of the services, would it not be unjust to grant at will exemptions to certain classes of citizens rather than to others? A. If you cannot judge, all right, but I think it can be done.

Q. You said, however, a little while ago that this is a difficult problem? A. Yes. But I think nevertheless that you can judge. There are as a matter of fact in all universities social research departments, the task of which is to measure the human, moral and social consequences of such or such economic system. There are also extensive inquiries conducted by the governments, by that of the United States, for instance: "Cooperative enterprises in Europe" in 1937. In those inquiries it is sought precisely to show what are the moral, social and human consequences of the various economic systems. That can be done for capitalism and socialism.

BY THE CHAIRMAN:

Q. You are familiar with the result of the United States inquiry? A. Yes.

Q. Do you agree with the conclusions of this inquiry providing that cooperatives must be taxed as well as regular enterprises? A. No -- and that is the opinion of the Council -- I cannot agree with those conclusions. It is, however, to be noted that governments have quite often started by not taxing the cooperatives. It is only under the pressure of certain institutions that they were finally taxed a little as other enterprises were.

Q. Then, it is on account of its worth that you say the cooperative should not be taxed? A. I think the question is to be set forth as Mr. Victor Considérant did in the French chamber about 1928: "I am in favour of co-operation, but on condition that it be carried out within law and equality." For us, however, it is but a matter of proportional equality.

BY MR. BROSSARD:

Q. On the whole, your argument is in favour of what you call the real cooperatives? A. Yes.

Q. And you call real cooperatives those which confine themselves to give service to their members? A. Yes.

Q. Therefore, you would not go so far as to claim the extension of the privileges enjoyed by the cooperatives up to now, in favour of those which would not meet the conditions you require from a real cooperative? From this point of view, do you regard as a real cooperative the one which deals with others than its members? A. I would reply first that, as you seem to say yourself, we want to support real cooperatives only. I may even tell you that one of the objectives of the Superior Council is to fight against false cooperatives.

BY THE CHAIRMAN:

Q. You know that there are some? A. Yes, there may be some, but we try to convert them, to correct them. Just as we very well know that among capitalist enterprises some are not quite good. Cooperators are humans like anyone else. Now, do we regard as a false cooperative the cooperative which deals with non-members? The broad principle is to deal only with members, but it occurs that out of necessity a cooperative is obliged to deal with non-members. The cooperative is not at all an isolation force; it practises

no separatism in the economic sphere. The cooperative sets in the existing economic system. It has its part to play there. The cooperative sector is necessarily connected with the economy of the country as a whole. That is the reason why, as a matter of fact, there may be need for a cooperative to give service to those who come and ask for it when there is no institution on the spot capable of giving that service. Furthermore, under certain circumstances, it may be a question of life or death for a cooperative. Suppose, for instance, that the crop was bad. The cooperative growers are unable to supply their enterprises with enough products to prevent them from operating at a loss. We think that there is a need here which justifies asking non-members for products. Consumer cooperatives may in turn happen to be in need, if they have accumulated too great stocks of perishable goods; must they not then dispose of them? Those *de facto* needs may even become *de jure* needs at times, since the law occasionally compels cooperatives to deal with non-members.

Q. This is hard for competitors? A. Yes.

Q. Have not the others the same right to live as the cooperatives? A. Yes, we recognize that they have exactly the same right.

BY MR. BROSSARD:

Q. You would impose as a condition, to allow a bona fide cooperative to deal with non-members, that it does so on account of necessity either from the moral, economical or local point of view? A. Yes.

Q. At the foot of page 7 and top of page 8 you defined cooperative as follows: "A free association of persons owning an economic enterprise which they direct and control democratically for their own service and for the service of all."

Would it be necessary to change many words in order that this definition applies to an association of persons dealing in the form of a corporation? A. It would be sufficient to change the word "democratically".

Q. In what respect a corporation does not operate "democratically"? A. The word "democratic" or the adverb "democratically" can be construed in two different ways. An institution may be called democratic because it serves the people, because it has a democratic finality. I believe that, theoretically at least, all institutions claim that sort of finality. But it is not through their finality that institutions are termed democratic; it is by virtue of control, and to speak philosophically, of efficiency. In the accepted expression: "For the people and by the people," it is "By the people" which characterizes the democratic institutions. And if an institution is to be really controlled by the people, the democratic principle: one man one vote, ought to be applied as it is done in a cooperative. In a joint stock company, on the contrary, it is not the individual who votes but his share. Consequently, if an individual succeeds in holding 51 per cent of the shares, he is the one who controls.

Q. Is that not the democratic principle of the majority? If there is a previous agreement between the shareholders on the fact that the vote will be granted according to the number of shares, does not that agreement involve for each of them a renunciation of his right? A. It is rather a renunciation of the democratic formula, and I think that in so doing the shareholder does not act democratically. There might be shareholders who are not interested at all in exercising control; they rely on a good manager.

THE CHAIRMAN (Text): Mr. Brossard, I did not understand Father Lévesque to say that majority rule is undemocratic.

MR. BROSSARD: No, he did not say that -- not at all.

BY MR. BROSSARD (Translation):

Q. Would it not be the same thing in the cooperative when a member refrains from using the right to vote and leaves to a small number of members the direction of the cooperatives?

A. To the same extent he ceases being a good cooperator; the less he looks after his business the less he is a co-operator.

Q. And in the same way the cooperative of which he is a member stops being democratic? A. Exactly.

Q. In principle, cooperatives are democratic, but in fact they may not be so. A. The difference between cooperatives and companies is that the former are democratic in principle and the latter are not.

Q. On page 13 of your brief you say: "In taxing them, the members would be subjected to double personal taxation since they are already taxed individually under the Income Tax Act." Is it not exactly the same thing concerning the shareholder of a company, is he not also subject to double taxation? A. Yes, he is subjected to double taxation; collective taxation and personal taxation. In a cooperative it would be a double personal tax.

Q. If you consider the cooperative as a legal entity distinct from the legal entities which compose it, is it not the same thing as for a company? A. In the case of a cooperative each member is already subject to income tax.

Q. Shareholders also? A. We do not object to the cooperator being taxed personally but we deny that he be taxed as a member of a cooperative.

Q. Is not a shareholder taxed personally and also as a shareholder? Would it not be the same thing if the member of a cooperative was taxed personally and also as a member of a cooperative? What difference would there be? A. I do not quite understand.

Q. With regard to a joint stock corporation, shareholders are subject to a personal tax? A. Yes.

Q. As a shareholder of the corporation, he is also taxed since a portion of the profits made by the corporation is subjected to taxation and his personal profit is reduced. Would it not be the same thing if cooperatives' profits were taxed? A. No, it would not be the same thing, because as far as a company is concerned there is a collective profit in the enterprise. And it is as such -- not as a personal income -- that it falls directly under the tax on corporations. Whereas in a cooperative there are no collective profits, but merely an increase, through the concern, of the personal income of each consumer. Therefore taxing a cooperative as such would mean taxing directly a second time the cooperator's personal income.

Q. In both cases, is there not a collective income divided among associates? Let us take the case you mentioned: an income of \$200 of which \$50 come from dividends, and in the case of a shareholder who gets an annual income of \$200 of which \$50 come from dividends, is it not the same thing? A. It is not exactly the case illustrated in our brief. It is obvious that all personal incomes, resulting either from share dividends, fall under the Income Tax Act, if they reach a certain amount.

Q. What difference do you make between a reserve accumulated by a cooperative in order to increase its

activities, and reserves set up by a joint stock company for the same purposes? A. In the case of a company, reserves are drawn on collective profits subject to taxation, but in the case of a cooperative reserves derive from patronage dividends, namely on property belonging to each cooperator. Cooperators then say, "It is advisable to increase our business and to provide for reserves, therefore to build up reserves." They then avail themselves of the patronage dividends which belong to them and they set them aside in the form of a reserve.

Q. Is it not an investment in both cases? A. Yes and no. From the viewpoint of the investment's purpose, it may be the same thing, but from the point of view of the source of the investment it is different. In one case it is the patronage dividend or the property of each cooperator which is converted into a reserve. In the other, the collective profit of the concern becomes a reserve.

Q. Let us suppose, in both cases, that the surplus had been paid on the one hand to the shareholder and on the other to the member and that both decide to remit their profits to the concern to which they belong. As soon as such profit or returns have been remitted to the concern is it not absolutely the same investment for either one or the other? A. From the concern's point of view it amounts to the same thing, but from the point of view of taxation, at the source, it is not the same thing.

Q. In your brief you make a distinction between the reserve credited or the amount credited to each member, and the amount used as a collective reserve by the concern.

A. In the first case it is collective common property and in the other distributive common property.

BY MR. NADEAU:

Q. So it means that the cooperator invests capital in the enterprise, since he agrees that his patronage dividends be left in the enterprise and become a reserve fund. Then, you must set aside what you say on page 9, third paragraph, where you make a distinction between the cooperative enterprise and the capitalistic enterprise. Do you not admit, according to what you just said, that cooperators are also risking capital? A. I do not think there is any contradiction, though there seems to be one. By surrendering momentarily patronage dividends in the form of reserves, he still acts according to the same relationship of a user to his service. It is because he wants his service to be sound and efficient that he puts more capital at its disposal. It is not a relationship of risky capital to profit since he does not risk his capital to get more profits, but to secure a better service.

Q. Would it be right to say that, in a cooperative, the cooperator's interest is at the same time a consumer's and customer's interest and at the same time a depositor's and a shady financier's interest, when some depositors let patronage dividends accumulate in the cooperative during seven or eight years? A. Yes, in a way, because patronage dividends are savings which may be invested.

Q. Then, it may be said that there are strong similarities between capitalistic enterprise and cooperative enterprise since certain elements of investment of funds exist in both? A. With regard to their function or their finality, investments may be the same. But from the point of view of their source it is different. In one case we invest savings, in the other profits.

Q. Is the Superior Council of Cooperation a member of the Cooperative Union of Canada? A. You are aware that the Union is a cooperative organization. In principle we wish to work with it. However, according to the kind of affiliation which was proposed to us, certain points were not acceptable to our Council.

Q. In fact, you are not members of the Union? A. We are not members at the present time, but we cooperate with it.

Q. Did the Superior Council have the opportunity of studying the result of the consequences of taxation of co-operatives in Great Britain since 1938? A. We did not have such an opportunity; we did not inquire into that, but it would be a very interesting matter to examine carefully. Our Council intends precisely to make researches of that kind.

THE CHAIRMAN: I thank you.

MR. BROSSARD: Senator Vaillancourt wishes to add a word of explanation.

Hon. CYRILLE VAILLANCOURT, called:

BY MR. NADEAU:

Q. If I understand well, it is a question which was answered in part. A. You asked if there was a difference between organizations dealing in the investment of funds, as trust companies and banks, and the caisses populaires. There is a marked difference, because we do not deal in the investment of funds like trust companies. If someone came to the caisse populaire with 25, 30 or \$40,000 for us to administer, we do not take that; it is too much; that is not within our field of operations. We deal with the small savings; we have deposits averaging two hundred and some dollars. We deal with people of small means. The capitalists have their own

organizations to look after their money and we do not go into that. Besides we have not the privileges enjoyed by the banks, i.e., sections 86, 87, 88 and 89; and we do not want those privileges.

BY THE CHAIRMAN:

Q. You have the privilege of mortgage loans not enjoyed by the banks? A. The banks do not enjoy that privilege, but when they want to be paid they take everything.

THE CHAIRMAN: We have heard the argument you mention. I thank you, Senator.

C.C.F. - Quebec Section

DAVID COTE, M.L.A.,

Rouyn, Quebec,
having been duly sworn
testified as follows:

THE CHAIRMAN: Mr. Brossard, I think you have a note from Senator Beauregard asking that a question be put to the witness. Will you ask it now?

BY MR. BROSSARD:

Q. Will you tell the Commission if the cooperatives or some of them and especially the Coopérative Fédérée of Quebec, the caisses populaires, the Pêcheurs-Unis, the Alliance des Coopératives de Consommation of Quebec have asked or suggested to the Quebec section of the C.C.F. party a demonstration of sympathy towards the cooperatives? A. As far as I am aware, no. We simply are in favour of co-operatives because they are a social reform.

BY THE CHAIRMAN:

Q. Will you read your brief? A. Yes. The brief reads:

Brief SubmittedTo The Royal Commission of Inquiry on CooperativesBy the Quebec Section of the C.C.F. Party

If the C.C.F. party submits a brief to the Royal Commission of Inquiry on Cooperatives, it is not because they have any financial interest to protect, far from it. They intervene in the discussion between capitalistic interests and cooperative organizations, in connection with the taxation of the latter, because they deem that the matter involves not only economic interests but also the whole conception of economic life as well as moral, social and political matters. The C.C.F. claim indeed that it is a social ideology that is brought before the commission and they side with the cooperatives because they are convinced that those economic organizations are an excellent means of vivifying our society and of developing integral democracy in our country.

The C.C.F. hold the view that public opinion realizes more fully the necessity of regulating the economy for the welfare of all, that service and not profit should be the psychological object of production and distribution. And it is undeniable that the cooperative movement is both the application of that new point of view and an important factor in that economic reorganization.

That producers and consumers freely unite in order to meet, by combined action, some of their needs and that the direction of those undertakings be equally assumed by all operators regardless of the amount of capital invested by each, that is something which demonstrates an increasing predominance of human values over monetary values, that is something that constitutes a practical application of the principle of the primacy of service over profit, that is something that indicates a decisive relinquishment of the economic capital-

istic conceptions which give preeminence to capital, that is something in short that raises the human being to his proper rank in economic matters, which, according to the natural order of things and purposes, should be the first:

Not only is cooperative enterprise sound and rational, but its development helps and will help us to get rid of the prominent role of capital which characterizes our capitalist economy. As the cooperative sector of our economy grows, the capitalist sector in which persons are subordinated to property will decrease proportionately.

And I want to emphasize the fact that the principle of one person one vote is particularly beneficial and required in our times, when capitalism has become monopolistic on a large scale. Economic or political dictatorship is particularly odious to our people, and they resent more and more the growing control of monopolists in industry and the progressive concentration of economic power into the hands of a few financial magnates who, generally, are trustees rather than owners of the funds which are the source of their power. As a matter of fact, under the present regime, a small group of persons at the head of certain corporations enjoy a tremendous voting and controlling power, while a large number of unorganized shareholders have practically no share in the management of the enterprise. Furthermore, several royal inquiries have demonstrated that companies tend to amalgamate and become monopolies and even international cartels and that, through interlocking directorates and other manoeuvres, a powerful but restricted group, acquires control of finance and essential industries, distributes the profits as it likes, directs the economic policy of the country and even makes its influence felt in foreign policy. Such activities are anti-social, and such a power concentrated in the hands of persons not responsible to the people is anti-democratic.

The democratic control which characterizes cooperatives constitutes a very effective method of decentralizing economic life of the nation into the hands of the people. In short, the growth of cooperatives affords a way to combat economic dictatorship within the country and any check to their expansion, chiefly in these times, would seriously hurt the morale of the nation which seems determined to win the peace as well as the war, to become emancipated from any economic domination as well as from any political slavery, to eliminate monopolists as well as conquerors.

In addition to their ration merits and their democratic value, cooperatives have a human value which must be taken into account in this question of taxation. Indeed, cooperatives play in respect of their members an educational role which must not be underestimated. While they are learning to manage a business enterprise, cooperators assimilate notions of economics and accounting, and a few cooperatives even teach their members how to read while others make them familiar with economic theories. Thanks to that knowledge and to that experience in business management, cooperators become increasingly able to manage their own business and better equipped to shift for themselves.

On the other hand, the cooperative system promotes individual initiative. In a capitalist economy, producers are divided between contractors and contractees, while in a cooperative economy, all producers are contractors to some extent, since they are free to make suggestions to improve their cooperative enterprise and, thanks to the prevailing cooperative spirit, they are able to initiate certain projects and put them in force because they can depend on cooperators for financial support.

In addition to making cooperators better informed and more self-reliant, the cooperative system develops in them a genuine

social sense. Through the spirit of cooperation and service instilled into its members, it contributes to cure that hypertrophy of the ego and that egotism which economic liberalism and free competition have engendered. Under the cooperative system, our neighbour is no longer an adversary but a cooperator, and people are ready to assume greater responsibilities without pay because they acquire a greater sense of their social duties, of the moral need for zeal and service. This kind of enterprise will therefore help to shape our society into a harmonious and well organized hive rather than a chaotic and savage jungle. And at this time when there is a greater need of national unity, this beneficent effect of the cooperatives assumes a particular value.

The cooperative in a democracy has political merits because it first informs and stimulates the citizens. By inspiring cooperators with devotedness to others and by instilling into them the sense of social responsibility it arouses or enhances civic virtues in them.

Those organizations are a miniature democracy and prepare their members to play their part in a democratic society. That is the reason Facists endeavour to eliminate cooperative organizations in order to make of their people citizens without freedom of mind and initiative, automatons instead of persons, a crowd instead of a people.

By teaching people to shift for themselves and by giving them the habit of getting together for important activities and depending on themselves, the cooperative enterprise makes it less necessary for the state to intervene in supplying the deficiencies of private enterprise. The best way to put an end to state paternalism is for citizens to help themselves.

Social ills must be cured at all costs, and if the citizens do not themselves take the necessary steps, then the

state must intervene. Funeral expenses, medical care, hospitalization and building cooperatives are so many social initiatives that contribute to the welfare of the people by reducing the cost of those services and save the government many items of social expenditure. As most cooperative enterprises are social services or are launched in order to satisfy the primary needs of the working classes, or to distribute or process farm produce, to tax cooperatives would be taxing people who are least able to pay.

Before concluding my remarks on the political aspect of the cooperative movement I wish to refer to the resolution passed by the United Nations Conference at Hot Springs, stating that cooperatives have played an all-important part in the training of good citizens for democracy and recommending that all countries should assist in the establishment of producer and consumer cooperatives and scrutinize their legislation in order to remove all legal obstacles to their development.

Cooperatives should not be taxed not only because they are a factor of democracy and economic emancipation, and a haven of individual, social and political progress, but also because it would be futile to do it.

I cannot understand the suggestion of capitalistic enterprise supporters that cooperatives be taxed. The patronage dividend is not a profit but a reimbursement to cooperators for requiring them to pay more than the cost price. The consumer and producer cooperatives, if not the social service cooperatives, generally charge more than the cost price, because they have adopted the policy of selling at prevailing prices. But if patronage dividends are taxed, it is very likely that cooperatives will change their price policy and that they will substantially reduce them, which will give rise to a price war which would leave their capitalistic competitors

in a very bad financial position.

If patronage dividends are taxed, they shall practically be done away with, and everybody will be the loser; the capitalists in having to meet lower instead of higher prices they anticipate; the government in collecting practically nothing from that source of revenue and in losing, on the other hand, on the personal income tax item; the cooperators in meeting increased difficulties in securing the necessary savings for their expansion and multiplication.

As to reserves, to tax them would be discouraging prudence and penalizing foresight. To remain stable, an enterprise must have a certain reserve to meet all possible contingencies. And I do not believe it would be wise and fair to tax reserves exceeding the required minimum to ensure the stability of the cooperative enterprise, because such taxation would discourage thrift, and thus impair local economic expansion, community initiative and decentralization. If there was a general tax levy on capital, if there was a tax on accumulated wealth, it would be just to tax such savings; but, if I am not mistaken such a tax does not exist in Canada.

One of the arguments used in support of the opinion that cooperatives should be taxed is the allegation that United Kingdom cooperatives are subject to taxation. Such an assertion is only partly true, as a tory government amended the act exempting cooperatives from taxation and compelled them to pay a tax on undistributed surplus but not on patronage dividends.

The provincial act on cooperative syndicates gives every safeguard required to stop the development of undertakings which would be cooperative in name only and would parade under such a label in order to take advantage of tax exemptions. However, the provincial act authorizes a rate of interest of 10 per cent on capital invested in a cooperative. Such a rate

is excessive and we respectfully suggest that it be brought down to the prevailing minimum rate in the province.

We respectfully suggest also that an act on cooperatives and an act on caisses populaires be enacted by the dominion government. Cooperatives wishing to operate under the dominion government are now governed by the Dominion Companies' Act, which is not desirable.

Respectfully submitted,

Omer Chartrand,

Provincial Secretary.

Mr. BROSSARD: As it is an expression of opinion, I will ask no question. Thank you.

Quebec Board of Trade

THE CHAIRMAN: Mr. LaCroix, is it your intention to present the case in English?

MR. LACROIX: If it please the Commission, I will read the brief in English, but there are some comments which, if you do not mind, I would wish to make in French.

Monsieur le President, Messieurs. Avant de lire le memoire je desirerais faire une mise-au-point pour qu'il n'y ait pas de malentendu sur la position que nous adoptons. Je n'ai ni le mandat ni la competence d'entrer dans des discussions philosophiques, comme l'a fait le Pere Levesque, pour discuter du merite de la cooperation. Je sais que dans certains milieux, depuis que cette enquete est en cours, on a eu l'impression ou on a voulu creer l'impression que le commerce individuel en prenant position comme un defendeur; meme on nous a taxes de vouloir attaquer les cooperatives.

LE PRESIDENT: Il n'y a pas de defendeur.

M. LACROIX: Je sais, Monsieur le President, mais la seule position que je voudrais adopter est la suivante: nous voudrions essayer de signaler certaines anomalies qui, a mon humble avis, existeraient dans la loi d'impot et que, si on en continue l'application, ceci aura pour effet de prejudicier le commerce individuel au lieu de permettre aux deux de vivre. Je veux dire que nous ne voulons pas critiquer le sytème cooperatif; je suis meme pret a admettre que nous reconnaissons les avantages qu'il a procures aux classes laborieuses. Je ne suis pas capable de faire certaines distinctions entre le domaine materiel et le domaine moral, mais nous trouvons qu'a cause des lois d'impot les cooperatives entrent trop loin dans le

domaine materiel pour pour enseigner nos obligations morales. C'est un peu le reproche que nous avons a leur faire. Je vais lire le memoire et je ferai, au fur et a mesure, les commentaires qui peuvent s'imposer.

"To the Chairman and Members of the Royal Commission on Cooperatives:

I. Introduction

"This brief is submitted on behalf of the Quebec Board of Trade. 'L'Association Patronale du Commerce de Quebec Inc.,' Quebec Northern New Brunswick Fish Producers and Exporters Association. In order in Council P.C. 8725, it is very clearly stated that the Commissioners appointed by said order in council are to inquire into:"

THE CHAIRMAN: You can pass over the reading of that; we are very familiar with it.

MR. LACROIX: Very good; I will continue on page 2.

"We find in these three propositions, and more especially in the paragraph 'b', enough latitude to allow us to deal with this question as follows:

"In the first place, we intend to try and stress out what has been, at the outset, the real and true aim of our legislators in putting in our statutes, laws to allow the establishment in our province of cooperatives, and subsequently, laws to encourage and develop the cooperative movement.

"In the second place, we intend to show in the light of those statutes and of our various provincial and municipal laws, to what extent the cooperative movement has been strongly aided, and the many privileges, unknown to privately owned companies, which have been granted to these various cooperatives.

"These facts being established, it will be our purpose to try and make clear another fact which shows that to-day, the cooperatives, benefiting, as they are, of tremendous and crippling advantages, have now reached a situation where they are going far beyond the aim of the legislator, and on that account, have become competitors, the existence of which imperils the surviving of private companies.

"We realize that your commission has no jurisdiction beyond that stated in order in council P.C. 8725, and that whatever complaints we might have on account of the facts hereinabove stated, existing in the provincial field, your commission would have no power to remedy this situation. However, we think it not only advisable, but necessary to put such a situation in the provincial field, very clearly in light, because we aim to find in it exactly the arguments which, we humbly submit, will justify us for asking your commission to prevent these competitors to benefit in the federal field of additional advantages and privileges for which, this time, we contend there are no reasonable justification.

II. The Origin of the Cooperatives, and their Primary Purpose.

"The principles of cooperation are very well known, and we do not intend therefore to repeat in this brief facts which are already familiar. 'These cooperatives were authorized to become joint ventures of an unlimited number of persons to provide goods and services at a lower net cost to themselves than the costs of similar goods available on the open market.'" In this province, the legal existence of the cooperative movement really dates back to 1906, and can be found in 6 Ed. VII ch. 33.

"Two years later, is found in the provincial statutes, the first law governing the syndicates in Quebec, and this law has been amended to become, in our actual statutes, chapter 120 of the revised statutes of 1941. This law, known as an Act relative to agricultural cooperative societies for the protection of labour classes, and a defence of their economic interests. The other basic laws in our statutes governing the cooperatives, are chapter 290, relative to the Cooperative Syndicates, chapter 201 relative to Fishermen's Cooperative Societies, chapter 202 for the organizing of Fish Cooperative Federations, and finally an Act constituting 'La Cooperative Federee de Quebec'.

"In all these laws inspired by the first statutes of 1906 and 1908, it is easy to see that the main purpose which the legislator had in mind, and which is stated in the laws themselves, was to allow these societies to purchase, for resale to its associates only, the necessities of life, and the requirements of their industry, and give them credit facilities, make loans, sponsor common endeavours, initiate productive operations among members, and sell their products collectively or individually.

"It may be seen by these laws that they aimed at creating an encouraging mutuality in the buying and selling of property. Your submissioners wish to state here that they do not, in any way whatsoever, intend to criticize what could be termed the true cooperative method of doing business.

"As it has been defined in other briefs, and more especially in the submissions made on behalf of the Brackman - Kerr Milling Company Limited et al, this true cooperative method would consist in a combination

of persons purchasing what they require, paying for these requirements from their tax incomes, and benefiting by the combination either in the form of a low initial price, or in a bonus representing the saving in price made possible by their combination. This cooperative method appears to be the original purpose of the laws which have been, at different times, enacted in this province, and in section 6 of chapter 290 of the Revised Statutes of 1941, the purposes of the cooperatives are clearly set out according to this true cooperative method of doing business.

"We think that we can truly state that at least in this province, it was never thought that by enacting laws, to allow the creation of societies which would put in practice this cooperative method of business, anyone intended to do something which went beyond an adequate aid and assistance to labouring classes and farmers and fishermen, so that they could get together in order to purchase more cheaply the necessities of life, and at the same time derive as a result of a sound protection, better returns from the sale of their products."

What we have tried to stress is mainly the fact that at the outset the conditions as to taxation were very different from what they are to-day, and we humbly submit that it was never the thought of the legislature to create or to authorize a system which in its application would have no other result than the establishment of a mixed economy or controlled monopoly, if you want to call it that. But to-day, on account of new factors in the income tax laws, and the excess profits tax laws, we contend that we have gone far beyond the aim of the legislature. Whatever may have been the original aim, the

system of fixed economy is now going on the path where it will lead to destruction to one of the systems instead of allowing both to survive in the economy of the nation. All these laws to which we refer date back to a certain period of time, and even the new amendments which we find up to 1935 were enacted at a time when there was no question of high taxes such as we have known since 1940 on private industry.

Je crois que sur ce point-ci il n'y a pas d'erreur. Le Pere Levesque, dans son memoire, l'admet lui-meme que les cooperatives, a ce moment-la, sont dans une position absolument privilegiee. D'ailleurs, si on ne voulait pas l'admettre la loi est la pour nous le rappeler a tout instant, mais elle justifie ces avantages, ces privileges en attribuant un caractere distinct aux cooperatives si on les compare aux compagnies privees. Dans notre opinion, c'est qu'au point de vue resultats c'est la meme chose. Si a la fin de l'annee, dans l'entreprise privee, j'ai un surplus, je l'appellerai un profit et si mon voisin qui est coooperateur a ete heureux dans ses operations, il l'appelle un trop -percu ou qu'il l'appelle le resultat de son economie, il est indeniable qu'il a un montant en plus dans sa poche qu'il n'avait pas au debut de l'annee et dont il va se servir pour son commerce et pour me faire concurrence. What I am trying to emphasize is that these privileges and these advantages which exist in favour of the cooperatives, and which are admitted by them, are, I say unfortunately, in large part paid for by the taxes which actually are levied upon private industry. I know, as I mentioned a moment ago, you have no jurisdiction to remedy this in the provincial field, but we want to show

at least how we reach the federal field in competition with them; how we go on the market with them, and once we are there, if they have been established through the medium of these taxes levied upon us, as a very strong competitor, we at least feel justified in asking you in the federal field: Don't go farther, and do not guarantee benefits to them while you take ours away from us.

"III. Advantages and Privileges Created in favour of Cooperatives.

"Since the outset, the cooperatives have always been considered as being in a privileged class. No doubt this has existed on account of the intention of municipal and provincial legislators who intended to promote and encourage what appeared to be the true cooperative method of doing business, On that account, we find in our municipal and provincial laws, many dispositions which give to the agricultural cooperative societies and other societies existing under the Act relative to corporative syndicates (chapter 290 S.R.Q. 1941) or even in virtue of other laws governing the cooperatives, all kinds of exemption of taxes, and privileges such as which were never contemplated to aid the independent trade with which the same cooperatives are now, and have been for many years, in competition.

"In the municipal code of the province of Quebec, a special disposition exists as section 700. This section clearly states that the right given to impose taxes (on all commerce, manufacturers, financial establishments, etc.) does not allow same corporations to impose taxes on the cooperatives. It is true that this section 700 refers only to agricultural cooperative societies and cooperative syndicates. However, in the statute of 1943 amending the act relative to the cooperative syndicates,

a paragraph has been added to include in the same category all the financial operations made by the 'Caisses Populaires'."

This is the section to which Father Levesque was referring yesterday afternoon when he said that now it is declared by law that their operations are not commercial or financial operations.

"Furthermore, another marked privilege has also been granted to the cooperative societies as a consequence of this last amendment to the cooperative syndicates' Act, and this has been the exemption for such societies of the payment of the business tax in the cities and towns.

"We also find in another statute of the Cities and Towns Act (R.S.Q. Ch. 233) section 526, which gives to the cooperatives, a similar power as that given by section 700 of the Municipal Code for the rural cooperatives. This section 526 did not go as far as the above mentioned section 700 of the Municipal Code because in it there was no paragraph creating a specific exemption for the cooperative societies.

"However, as a consequence of the amendment in 1943 to section 6 of chapter 290, that is to the Cooperative Syndicates Act, this section 526 of the Cities and Towns Act has now the same effect. By that amendment, it was declared that all cooperative activities are not to be construed as the exploitation of a commerce, of a financial establishment or of a profitable operation, and thus, all cooperative activities do not fall any more within the scope of this section 526.

"In the provincial field and more specially in chapter 120 R.S.Q. 1941 concerning the agricultural cooperative societies, we find section 30 which creates a specific exemption of taxes for these societies, and the same thing applies to the fishermen's cooperative societies in section 28

of chapter 201 R.S.Q. 1941. This then goes to show that the agricultural and fishermen's cooperative societies are exempted in this province of all provincial taxes.

"At this point, it is easy to conclude that any privately owned enterprise, as compared with a cooperative society, is in a very unfavourable situation to operate on account of the fact that the addition of all these provincial and municipal taxes and licences which are imposed upon privately owned enterprises, create, especially in these years, a very heavy burden which however, these enterprises accept to carry because they realize that these assessments are necessary for the general welfare."

If we contend, as we have done a moment ago, that exemption from taxes should be measured by the services rendered, and that private enterprise is called upon to give the greatest part of all its profits or earnings for the general good or general welfare, I suggest the commission should take this into account as services rendered, which would justify us to a certain extent in having certain benefits, at least part of the time if not all the time.

"On the other hand, they can not reconcile themselves with the idea that such heavy taxes on their own enterprises should be levied in order to enable the authorities to create privileges in favour of organizations, such as the cooperative societies, so that these same societies may increase their own volume of trade and become competitors which eventually are bound to imperil the existence of those who pay the taxes, and who, in the interest of the state itself, should remain tax-worthy.

"Besides this very important factor concerning the exemption of taxes, the cooperative movement receives a

very substantial aid in the form of direct subsidies which are paid yearly by the provincial government, In the survey of the cooperative system of the province of Quebec, made by the Quebec Board of Trade, we find a list of those subsidies which amount yearly to a very high figure, and which speaks quite eloquently for the help given by the provincial authorities to these societies."

These figures are figures of public record, if you wish that I read them.

THE CHAIRMAN: Just as you like, Mr. LaCroix.

MR. LACROIX: (Reading):

"We note first, a general subsidy of one and a half per cent of the total value of agricultural products or by-products sold through the cooperatives. This subsidy, since 1940, has been limited to \$100 for each local cooperative, and in 1942-1943, came to \$44,175.

"In the case of fishermen, the government has pledged to defray seventy-five per cent -- "

There is an error here which I should correct. I have put down seventy-five per cent of the cost of construction; I believe it is seventy-five per cent of the cost of materials, only. I will read from the beginning of the paragraph.

"In the case of fishermen, the government has pledged to defray seventy-five per cent of the cost of materials in all buildings owned and occupied by the cooperatives. The financial enterprises produced under this cooperative system, and known as Les Caisses Populaires, also receive their large share of direct subsidies. Since 1932, these subsidies are granted annually to the Federation of Les Caisses Populaires, and in 1942-1943, \$57,000 were thus contributed by the provincial government.

"Without further commentary, we however wish to submit to your commission certain figures taken from the Provincial Public Accounts, showing sums which were contributed to the cooperatives:

"Division of Dairy Products,	\$17,060.00
Division of Vegetable Production	3,075.00
Division of Gardening,	18,000.00
Production of Maple Syrup	17,600.00
La Cooperative Federee de Quebec,	90,000.00
Co-operative for the Purchase of seeds,	20,000.00
Fishermen's Cooperatives,	15,550.00
1½ per cent of value of products sold,	44,175.00
Federation of Les Caisses Populaires,	57,000.00
Miscellaneous	15,540.00
Total -	\$298,000.00

"The sum of \$90,000.00 for La Cooperative Federee de Quebec was in payment for seeds distributed by the Provincial Government through La Cooperative Federee." It cannot really be called a direct subsidy to the cooperative; it went to the farmers who benefit from the seeds, but the amount was paid to the cooperative to distribute those seeds.

MR. NADEAU: In what year was it?

MR. LACROIX: 1943. I will verify that, but I think I am right in saying it was 1943.

"The same thing which is being said of cooperatives all over Canada fully applies to the situation in this province, and it must be realized that a great part of all the benefits received here by the cooperatives are contributed by their corporate competitors.

"To again quote from a submission submitted by the Brackman-Kerr Milling Company Limited, in Vancouver, we respectfully submit that cooperatives exist only by the grace of those who pay for the administration, security and development of the country. When we consider these very large amounts represented by the exemption of taxes, and the total of the subsidies contributed directly to the co-operative societies, we feel that we can affirm that the original and main purpose of these societies has long been forgotten,--"

I think this is not an exaggeration, because after hearing the distinctions which were made very honestly by Father Levesque a moment ago, there might exist and do exist organizations which are not bona fide cooperatives. If that is so, and if when they take the name of cooperatives they are immediately placed in a privileged category and get the benefit of our taxes and the benefit of exemption in the Federal field, we contend that this justifies our saying what we have written here, that the original main purpose of these societies has long been forgotten.

"We feel that we can affirm that the original and main purpose of these societies has long been forgotten, and that we are to-day, not in presence of organizations existing to foster and protect the interests of labour classes and help them to buy more cheaply the necessities of life; we are also far from the object contained in section 6 of the law respecting these cooperative syndicates, when it says that for the above mentioned purpose, these societies may buy for resale to the associates only, such articles as are necessary for the support of life or for the works of their industry. We are truly in the presence of

organizations which have set aside the true cooperative spirit, and have become real commercial organizations dealing in general commodities, gasoline, oils, electricity, telephone, insurance, etc. Not only have they become such commercial organizations in the true sense of the word, but they are really profit making societies which, are able to constitute enormous reserves, although in their case, the law allows them to set aside these reserves by merely not calling them profits."

MR. ARNASON: Are you suggesting that cooperatives that deal, for example, in gasoline and oils are not true cooperatives because they deal in such commodities; or do I understand you correctly?

MR. LACROIX: No, no; I would not suggest that. Yesterday afternoon there was a gentleman here from Abitibi who in the course of his testimony gave as an example of what I thought represented the true spirit of mutuality the Syndicat de Travail. I do not think we have seen many examples actually of this Syndicat de Travail where there is no legal entity which comes between the buyer and the seller or the shareholder but where they all get together; it is what in this province we used to call la corvee. En somme, c'est cela; voici une operation de mutualite, de cooperative, qui peut représenter, qui peut nous servir de pole pour faire la distinction entre ce qui n'est pas. This Syndicate which was described to the Commission yesterday, and which has to do with forestry operations in Abitibi, we can use as an example to illustrate more clearly why we feel our complaints are justified, because the other operations do not correspond at all to the operations of the Syndicat de Travail of Abitibi. We say that what was

originally authorized to help the labouring classes is now reaching a field where it does not need to be but which has found advantages and profits there by merely using the name of "cooperative" and has taken this system as a means of evading taxes. What has been furnished by the legislature to help the labouring classes is being so used -- and I am not referring to the movement as a whole; I would like to be correctly interpreted on that. Wherever we find the true spirit of mutuality, we admit it, but we contend that it does not exist to-day according to the aim set by the legislature; when we analyze their operations we do not find them operations of mutuality but we find them really commercial trading operations.

THE CHAIRMAN: All you say is that they have departed from the true principle of cooperation.

MR. LACROIX: Yes. Another thing we complain about is that having departed from this true spirit of cooperation they still want the benefit of the same privileges and try to get them merely by using different names for their profits or their operations. This is our contention, and we say that it is unfair competition.

I have a case here -- and if I were before the appeal court I know you would be more severe for my reference to jurisprudence -- the only one I have is from La Presse, a judgment which was rendered in the Montreal court by Mr. Justice Boyer; possibly your lordship is familiar with it -- the case of United Fishermen and the James Company. In this case Les Pêcheurs Unis were described by the James Company as being conditionneurs and operating under the cooperative system and governed by the regulations of the Wartime Prices and Trade Board, with a different ceiling for them, which would be seventeen cents a pound. The James Company objected to paying the price which was

claimed by Les Pecheurs Unis, nineteen cents, which was the price set for the wholesaler. They went to court, and there Les Pecheurs Unis gave evidence that they were wholesalers and entitled to the same prices as wholesalers on the market. The court gave them judgment and condemned the F. P. James Company to pay them \$1,173.

THE CHAIRMAN: What is the date of that judgment, do you know?

MR. LACROIX: I got it on the 3rd of February, my lord, but I will verify that. Now, there is an admission, if I may suggest it, which justifies us in saying that there is a departure from the true spirit of cooperation, and this is what we object to. It is not fair, we contend, to do exactly the same thing as I do and call it some other name when it gets into the field of obligations.

I refer here -- it is not in my brief, but it is something you are probably more familiar with than I am -- to the report of the inquiry on cooperative enterprises in Europe, 1937, where you have at pages 74 and 75 the findings of the inquiry commission of the taxes which are imposed on these same operations in other countries. I would like to quote here what was said President of the United States, which you will find at page 117:

"Nevertheless, while the government can help through its resources, we in Washington have recognized that cooperation and cooperatives must come from the people themselves. Government can see to it that the rules of the game are fair as between cooperative enterprise and other enterprise."

That is really what we are asking. We are not asking for any special favours. We say, if you are able to satisfy your self first, and the others after that, that you have not departed from the true cooperative spirit, we do not

insist.

MR. ARNASON: I understand you to suggest, then, that to the extent, for example, that cooperatives do business with the public, they are departing from the cooperative principle?

MR. LACROIX: I will go further than that, Mr. Chairman; I will say that even with their trade with their members -- even there you have in certain instances departed from the true cooperative operations. I will try to show that later on, and if you will permit me I will take it up in logical order.

"As we have said previously in this memorandum, your submissioners do not intend by these remarks to criticize what can be termed the true cooperative system of doing business, but nevertheless they feel it necessary to put these facts before your commission to illustrate more clearly the real inferior situation of free enterprises, as compared with the situation of these societies who not only deal and trade amongst their own members and associates, but have become not only competitors, but a real threat to the existence of free enterprise itself."

It might be "private enterprise" instead of "free enterprise."

"As it has already been stated, free enterprise --"
Let us call it private enterprise.

"--by bearing alone the greatest part of the burden of national taxation, which is subsequently converted in the form of direct contribution to these societies, contributes to the support and development of these institutions which, if they continue to operate in these same conditions, will most inevitably destroy them.

"To conclude this chapter, it must also be shown that

besides the advantage resulting from the exemption of taxes and direct contributions, special conditions and facilities of credit exist for the sole benefit of the cooperative societies. When they borrow from their cooperative financial institutions, at a rate of five per cent or six per cent, the government guarantees sometimes up to four per cent on this rate of interest."

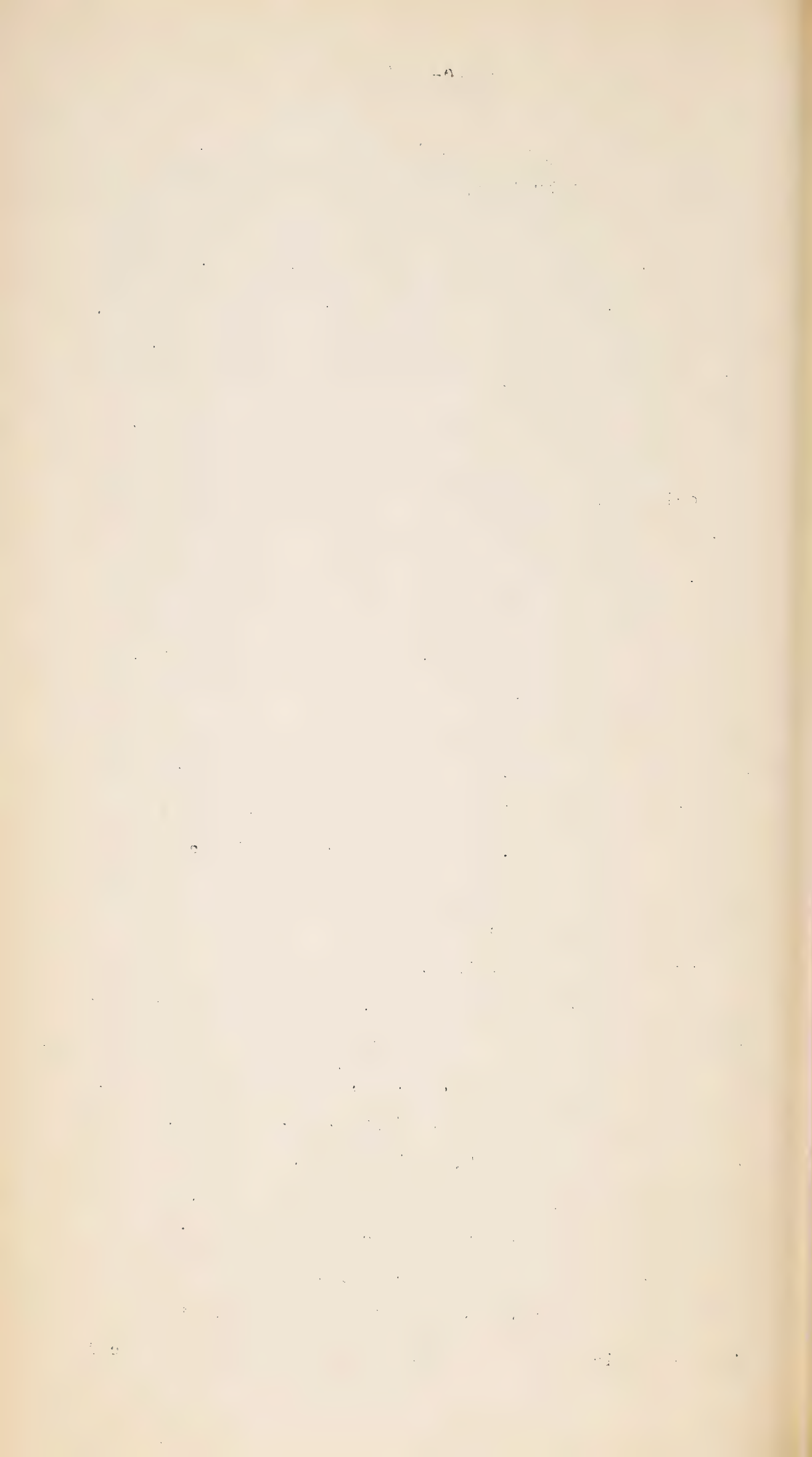
There is a reference which should have been made here. I would not take it on myself to say that this applies to all the societies, but I know that under chapter 111 there are special dispositions as to the guarantee of interest on loans. Further in the brief we have given examples which show the extent to which these guarantees have assisted cooperatives in the province, even on their mortgages, and even when they build.

"This goes to show that free enterprises or privately owned corporate enterprises, when they must borrow money for expansion through ordinary banking channels, must pay a high rate of interest, whilst their cooperative competitors can obtain the same amounts of money sometimes at as low as one and a half per cent.

"Les Caisses Populaires, which also operate as already stated on this cooperative system, have steadily increased the number and amounts of loans made, and in 1941 for example, these loans represented \$7,534,293, with a profit accruing to these Caisses Populaires, of \$845,460. In 1943, these loans had increased to 37,524 in number, but we have not on hand the report of the profits derived that year."

Senator Vaillancourt gave facts yesterday which complete this statement quite clearly.

"We do not object to the existence in a country of a mixed economic system in order to prevent the consequences



of unfair monopoly, but what we have shown already is enough we think, to illustrate the fact, that what in the origin was merely intended to foster the better economic interests of the smaller classes, has now become an inducement to these same classes to become members of what appears to be a dangerous monopoly in itself, and it can truly be said, we think, that such institutions engaged in such trades cannot be termed as organizations inspired by the true cooperative spirit which existed in the minds of their creators."

I think I am able to sum up in a couple of sentences exactly what we want to ask the Commission. If the Provincial government has deemed it necessary in the interest of the general welfare to give advantages and privileges to cooperatives, I am not ready to say we are willing to complain of that. We might say that the farmer and the fishermen -- and we admit that -- has the right to an adequate and fair price and a fair standard of living, and if the government has considered these classes as in the category of the poor brother in the society and has given them privileges and advantages to build them up as a competitor while private enterprise has possibly used other sources of income to go on the market itself, we do not object to that. Whatever the government may have done in the provincial field, it is hard for us, I know; we have to carry that burden too, but this is not the main purpose of our complaint. That might be what Father Levesque called yesterday social services -- to build up a child which is not very strong and put him in the field of competition. I believe I can truly say that there are no other consequences if we analyse the privileges and advantages granted by the provincial government. They give them the money --

and when I say give them the money I am truly stating the facts, because we mentioned in our brief the case of the fishermen's cooperative that started with a capital of \$330 and was given a subsidy of \$30,000 by the government, guarantees on their properties, and with this paid-in capital of \$30,000 they manage to-day to have a profit of \$131,000.

MR. PARKER: Would my learned friend pardon an interruption? In regard to the question with which he is now dealing, these grants from the Provincial government, could he tell us whether they become the funds of the cooperative body or are they given to be handed on to the individual members? In other words, what I am getting at is this: do these form part of the income of the receipts of co-operative bodies or not?

MR. LACROIX: I am sure that by this time you realize that I am not a specialist in these matters; I am just a lawyer trying to emphasize the points of my clients, but I will answer by a distinction. If you adopt the theory given by the cooperatives yesterday, that what they have belongs to the cooperators, well, I believe the answer would be that these subsidies go directly to the cooperatives and in the end and in the last analysis belong to the cooperators.

MR. PARKER: That is just the question we are all trying to answer, whether it is the individuals. I thought perhaps you could help us; if not, pardon the interruption.

MR. LACROIX: That is their contention. On the other hand we contend, in the light of these laws which declare that these societies which exist in our province are in the nature of joint stock companies with shareholders, with limited responsibility, I believe the true answer is that it belongs to the legal entity. It is the same

operation, but to prevent it being reached by the taxation they call it by another name. So having built this competitive in the provincial field, what we ask you is this: when it reaches the market with us, why should it need that help? All that it needed, we submit, was to be built up, given the same strength as private enterprise. The provincial government has seen to that, and we say that when we reach the market in company with you as a cooperative competitor, you are as strong as we are.

THE CHAIRMAN: You say the patient is now strong enough.

MR. LACROIX: I think he is getting stronger than I am.

THE CHAIRMAN: In the competitive field.

MR. LACROIX: That is it. If that is so, and I truly believe it in the light of these figures and laws, why then should the federal authorities be asked to take away my profits and guarantee profits to him once he is in the competitive field? -- because this is the result of the application of the income tax laws. I believe there is no other result, no other thing that can be said, unless -- and you will pardon me if I stay in the practical field -- unless you call it something else.

I was listening with interest to the questions you were putting to Father Levesque a moment ago, because when they leave their ristourne or trop-percu or whatever they call it and put it into reserve it is the same thing that is done at the annual meeting of a company where they decide not to divide the profits; the shareholders decide to invest it, and they leave it there; it is a new investment and they carry on at the beginning of the New Year. But the co-operatives come back and say: If you tax us we are going to die. Well, we don't believe that. We have the burden;

they live by the grace of those who pay for them, and we are the ones who pay for them. We have done that to build them up, and if they are going to die now that we take away part of their profits, how are we going to survive? It is impossible. They get the subsidies; we don't. They get the guarantees; we don't.

As I have said, this article which I quote here, this example, I think illustrates the operations to-day. While the ordinary man has to finance through banking channels and pay a high rate of interest, and furthermore have the pleasure of paying high taxes, the government comes along and says to his neighbour: You establish a grocery store next to this fellow and we will lend you the money that your neighbour is paying us in taxes; you get it at one and a half per cent, and you won't have any income tax to pay.

To continue with the brief:

"IV Federal Field

"We have endeavoured, up to now, to show as clearly as possible, the respective situation of free enterprises, operated in the provincial field in competition with enterprises operated under the cooperative system. This is the situation in which both come in the federal field, where now they are confronted by the federal laws and more especially by those which your commission is called to consider, that is the Income War Tax Act, and the Excess Profits Tax Act, 1940.

"The cooperative societies are generally divided into two categories known as producers' cooperatives, and consumers' cooperatives. The difference between these two categories is too well known to the members of your commission for us to dwell upon the activities of both. We would like however to

remind your commission that these cooperative syndicates or societies have a legal status which, according to the text of the law, does not differentiate them from other corporate organizations."

I know that this law is well known to the members of the Board, but I have quoted here a couple of sections which are necessary to illustrate the argument.

"Section 3 of chapter 290 says that:

'Such syndicate or association shall be of the nature of a joint stock company, the responsibility of its members or shareholders being limited to the amount of their respective shares'. This is in fact the repetition of Section 2 of 6 Ed.VII ch. 33, Section 7 of the same chapter grants and privilege to farmers' clubs and agricultural societies, and also to fishermen's cooperative associations to take shares in such syndicates. Section 38 gives the power to the general meeting to determine the amount of the profits which it shall allot, and section 39 deals with the reserve fund created out of a portion of yearly profits."

I have discussed this matter with a gentleman who is interested in this question and who says that the French version does not say "profits" but "benefices". I am not so much concerned here whether somebody wants to guarantee him profits or benefices; I am ready to accept either one or the other -- in the practical field.

THE CHAIRMAN: It is a question of a rose by any other name; is that it?

MR. LACROIX: I won't be too severe on the words.

MR. PARKER: Is my learned friend suggesting that because the provincial statute refers to "profits", they are profits when we come to discuss them in relation to Dominion income tax?

THE CHAIRMAN: No, he is not contending that.

MR. LACROIX: No, not exactly that. But yesterday afternoon I was rather strongly impressed by the argument made by Father Levesque, and I hope he does not mind my quoting him and using him as a source of inspiration. Father Levesque quotes le traite de droit commercial de M. Antonio Ferrault as to the three requirements to call for the existence of a commercial operation: (1) l'idee de circulation; (2) l'idee d'entremise; (3) l'idee de speculation. When we come to the second element, Father Levesque very ably says if you stay on the legal ground we must say there is a legal entity, but we do not admit that, because we do not stay on that ground; we go into another field, which is domaine economique, where there is no contract. But at the end of the year if you read the financial statements you will find that either in the domaine economique or in the legal domain somebody has taken money which is not going to private enterprise.

THE CHAIRMAN: I assume you take the legal ground, Mr. LaCroix.

MR. LACROIX: I have been brought up on that ground and I shall die on it. My aim is to observe the laws of this country.

MR. PARKER: He wants to die legally.

MR. LACROIX: To continue:

"After reading these sections in our provincial laws, it is quite easy to see that these cooperative syndicates constitute legal entities quite different from their own members whatever may be the contentions submitted on this question, and whatever may be the terms used to qualify the operations of such societies, we do not think that we can

call them anything else but real corporate organizations aiming at the realization of profits through trading operations with their members, and others, in actually the same manner as ordinary corporations with shareholders doing business in the same field of enterprise."

I again take the liberty of reminding the Commission of the case which was brought up yesterday by my learned friend Mr. Hudon, of the Syndicat de Travail. We take off our hats to the spirit of mutuality we find there. I believe, if I am well informed, that during the course of this inquiry a number of cooperative organizations -- I think it was in Winnipeg -- were asked to indicate one instance in which they were operating on a basis of mutuality, and they could not quote one. Well, I think if the same question were asked outside of Winnipeg, in many instances they would find it just as difficult to answer.

"As it has already been submitted to your board, we respectfully contend that these cooperatives have become private enterprises, carrying on their trade for the profit of their subscribers and shareholders.

"V Methods of Operation

"These cooperatives, whether they are consumers' or producers' cooperatives, buy goods from their members and sell them to the public, or they buy goods in the open market and sell them to their members. The profit sought by shareholders and subscribers is to secure for themselves goods or services at a lower net cost. Whether the dividends are called discounts, rebates or bonuses, or in a more general way, 'patronage dividends', they truly represent the profits of operations, exactly the same as we find in any other privately owned corporation, where they are, in this case,

called only dividends; The motto taken by these societies is: "Service against profit", but after analysing their legal operations, we submit that in fact the result is really: 'Profit called Service'."

I believe it comes down to that.

"-- In 1937, 'L'Ecole Sociale Populaire', in its monthly publication No. 284, published different studies made on this subject of cooperation, and in which we find very enlightening information."

I have referred to this publication -- I know we are able to hang a man sometimes on a sentence, so I hope I have not misinterpreted what he writes. I will try to see that this publication is put on record.

"--Mr. Jean-Baptiste Cloutier, chief of the Service of Co-operation in the provincial government, commenting on producers' cooperative, wrote:

"'Naturally, the producers' co-operative tries to realize the biggest amount of profit from its clientele. Its social and economic action is necessarily limited to the sole interested group; (Translation)

"Writing further on the agricultural cooperatives, the same author (page 20) writes as follows:

"'It does not aim precisely at the general lowering of the cost of living. It reserves its favours for one class in particular, and often, within this class, for a privileged group of producers.' (Translation).'"

Well, why criticize private enterprise? If the aim and method of the cooperatives is as has been indicated, it is evident that in the cooperative movement there are some groups which have completely forgotten that aim and are operating the same as privately owned enterprises.

"In these quotations, if we may say so, we can find the

confirmation of what we have previously said, that the actual action of cooperative societies, existing and operating on the same basis as joint stock companies, is far from the spirit which inspired the pioneers of Rochdale."

I would like to set aside the next paragraph because there is something I have to verify. I will reserve it for the moment, if the Commission please -- that is, the first new paragraph on page 17.

"If we read the reports or commentaries made in the known publications of these societies, it is quite easy to see that these patronage dividends must necessarily be far higher than the mere difference between the cost and retail price, and represent a very substantial return from a very small investment."

I may be wrong in this, but this is our impression. One recalls what was said yesterday about the operations of certain cooperative movements, consumer cooperatives, when they say you invest a dollar or twenty-five dollars and at the end of the year you get a ristourne calculated on the volume of your purchases. Now, they say this is not profit; you are merely, they say, taking money which belongs to you. I say that I am paying this. I am getting five per cent on my investment already on the shares, and at the end of the year I know that when I buy that article if I give fifty cents for it eventually I will pay only forty-eight or forty-five cents for it. If this is not taxable income or profit, why then have they managed to obtain in the criminal code section 498a? We have not the right to do that. Private enterprise hasn't the right to do that. It is a criminal offence for us if we do it -- and there is an exemption in that section 498a in favour of the cooperative.

This is a suggestion: I submit to the Commission that this situation should be corrected so far as the consumers' cooperatives are concerned. They call it a ristourne. They encourage people to do that, and on the other hand they place us in a different category; if we do the same thing we are committing a criminal offence. It is a known fact that private enterprise has operated in this way for many years. They used to have coupons which if they amounted to \$25 or \$50 allowed you a discount. In section 498 it says "allocation rabais ou escomptes" (rebate or discount). So this is the suggestion I am authorized to submit to the Commission, that this situation should be corrected; because it is truly an income. If I know when I am paying fifty cents that I am going to get two cents or five cents on that money, I say this is a profit I make on my investment. And they certainly cannot contend that with a dollar share or a five dollar share they are able to prosecute trade and commerce in the thousands of dollars as you see in the magasin cooperatif.

Now, let us take another example; and this is only playing on words.

THE CHAIRMAN: Do you recommend the deletion of section 498 of the Criminal Code? Mr. Arnason asks me if that is the purport of your argument.

MR. LACROIX: I am asking that we get even treatment.

MR. ARNASON: In one brief that was submitted to the Commission -- I believe it was at Calgary, by the Alberta Retail Merchants Association-- that recommendation was specifically included, that is, that section 498 of the Criminal Code be repealed.

MR. LACROIX: Well, I am not complaining of the

existence in the code of section 498. I am complaining of the exception made in favour of the cooperatives. It may be a very good thing for trade in general that this section exists, but let it exist for everybody. If it is virtue if it is done on one side of the fence, I don't want it to be sin if it is done on the other side of the fence. This is our sole complaint.

"In the monthly publication of the cooperative organization 'Ensemble', of November 1940, page 21, we see that the cooperative of flax producers of Vaudreuil-Soulanges, has become, especially since 1932, almost the largest organization in this field. They have now, an export trade in Scotland, Ireland, and Britain, and in 1939, just at the cut-break of the war, when Russia stopped all exportation, France and Belgium became a big market for this organization. Their operations, which reached \$431,500 in 1939 went over the million mark the following year.

"In the same monthly publication of April 1941, page 18, concerning the producers of maple syrup, we see that this cooperative society has a membership of over 2,000, and that this society has managed to control four fifths of the export trade to the United States. The shares of this society, also organized on the same basis as a joint stock company, cost \$10 in 1924, and in 1926 the price of the shares rose to \$30."

MR. BROSSARD: The same shares?

MR. LACROIX : Yes. You have that -- the publication is la revue "Ensemble" for November 1940.

"Far be it from us to criticize in any way the result and success of these operations, but on the other hand, we cannot forget, and this in the interest of the survival of

free enterprises, that these results and successes were in great part due to the contributions given to these organizations, which were taken from the taxes imposed upon their competitors in the same field, which, at no time, have had the opportunity to obtain from the government the same privileges and aid.

"It is then astonishing to realize that such societies organized and existing as legal corporate bodies and entities for trading purposes, and which are allowed to secure the benefits of a corporate entity for these trading purposes, refuse to submit themselves to the same obligations as private corporations in the field of taxation of the profits earned by them."

They want all the advantages and privileges of joint stock companies, but they stop there -- obligations we do not know and do not want.

"As already stated, their operations are made on the open market, and the goods they buy from their members are sold to the public. Their operations are conducted in the same legal manner as that which exists for the privately owned corporation, their members enjoy the same immunity from personal liability, as does any shareholder of other incorporate companies. These are the benefits which the law allows them to secure, but when the question of taxation of their profits arises, they strongly refuse to accept this obligation by giving another name to their profits, and by contending that their activities are operated on a basis of mutuality."

This is not in my brief, but I would like to refer the Commission to a memorandum submitted by the Income Tax Payers Association, page 37, paragraph 91. They illustrate the operations of cooperatives and joint stock companies,

and the only difference is that there is only one vote for each member instead of according to the number of shares. After the annual meeting the profits, notwithstanding the one vote, belong to those cooperators. One vote by each member certainly would not affect the results in the practical field so far as profits are concerned.

"We take the liberty to refer your commission to the authorities quoted in the brief submitted on behalf of the Brackman-Kerr Milling Company Limited, in which it is shown that 'mutuality exists only when the cooperative trading is strictly confined to its members.' Consequently, after having seen how these societies operate, in what field they operate, and to what extent beyond their membership these activities are expanded, it seems quite impossible to admit that this is done only on a basis of mutuality, and we must conclude that the benefits derived from these operations by the members or shareholders of such organizations, are really and truly profits according to the usual and legal meaning of this expression.

"Why then should such profits be exempt from taxation? This contention of cooperatives to be treated as mutual traders was set aside in the minority report of the royal commission of 1919, and we do not see that any change in the method of operations has been made since that date to justify different conclusions.

"The cooperatives rely on the application of clauses 4-G, 4-I, 4-P, and 4-Q of part II of the Income War Tax Act, chapter 97, R.S.C. of 1927. It is our humble contention that these sections aim solely to consider the situation of mutual marketing organizations, but that it never was the intention of the legislator to extend such exemption to

organizations who in the terms of the law itself (chapter 290 section 3) 'are of the nature of a joint stock company'. The consequence of such an interpretation would only lead to allow the cooperative system to become a tax evading system.

"When the Income War Tax Act was amended in 1930 by adding clause P to section 4 of the Act, and also adding clause P to extend the exemption to the banking institutions operating under the cooperative provincial legislation, we still contend that these amendments were aimed to protect the primary producers, or similar organizations operating on a basis of mutuality. The result of an absence of clarity in the law, and of a positive definition of cooperatives to be covered by such exemptions, has now resulted in creating a situation which allows any industry to take cover under the appellation of cooperative and thus, not only avoid paying taxes to the government, but enable such industry to receive subsidies, grants and favours from this same government.

"In an article published in the Hearst newspaper on May 14, Fulton Lewis, Jr. gave an example which shows the consequences of such interpretation given to the Income War Tax Act, especially to these clauses P. and Q. of section 4. This example is in relation to the case of a man operating a grocery store: 'He is forced to get his money through commercial banking channels, and is required to pay high income taxes.' The opposite side of the story is inspired by the interpretation of the income tax act as claimed by the cooperatives, and as applied since 1930. By this interpretation the government would say to another man: 'Start a grocery store next door to this one already in

existence. The government will lend you the money that this man has paid in taxes; you will get it as low as one and a half per cent, and you won't have to pay any income tax at all.'

"Why not then, decide to become affiliated with a co-operative to obtain these advantages and benefits? This is certainly a paternalism of business by the government, which, we humbly submit, the legislator never intended to create by inserting clauses P. and Q. in section 4 of the Income War Tax Act.

"As we have already tried to emphasize, your submissioners do not mainly object to the creation and support of cooperative societies, and they do not object to the fact that the authorities give aid and privileges to these societies in order to help a small producer, and the labour classes to reach the open market and receive there an adequate protection for their sales of purchases, against the control of objectionable monopoly. In other words, your submissioners do not object to the fact that the government places other competitors besides free enterprises and privately owned corporations. This would remain, to a certain extent, in the field of competition, but once both competitors (government subsidied, and independent enterprises) are on the open market, your submissioners strongly object to the fact that the federal authorities, by such an interpretation of the laws governing the income and profits, now step in to actually guarantee profits, to these competitors. We cannot see any other result or effect to the action of the government. It is not because profits are not called by that name that they do not remain profits, and if such is the case, why exempt them from taxation in the case of cooperative societies, and

impose them so heavily upon the independent traders?

"The consequence of such an action is necessarily to allow a very unfair competition, and at the same time, discourage the independent organizations from carrying on in their respective fields of business, when they realize that the results of their work and operations will have to be turned over in great part to the government, and then converted into subsidies which will be handed over to the next door cooperative competitor.

"To illustrate more clearly these propositions, and the consequences of tax exemption, we respectfully wish to submit to your board certain examples which are taken from official reports.

"First, on this question of inviting the privately owned corporation to seek tax evasion through the medium of cooperative operations, we know of a case which was submitted to your commission in the course of this inquiry. We refer to the case of a dairy company formerly privately owned, but which has now become part of a big cooperative. According to the Financial Post of January 27, 1945, on page 8, it is shown that changes were made, that this large private company, at one time a 'considerable contributor in income taxes, was absorbed without any substantial change in operating personnel, and that financing the deal was eased to a considerable extent for the new owners, through tax exemption granted cooperatives.' As a result, this company, who had paid \$90,000 in income and excess profits tax in 1942, and \$200,000 in 1943, now ceased paying dominion taxes, although it is contended that no substantial changes were made in the services rendered to the public or in their methods of operation.

"On the second proposition which we have submitted in relation to the discrimination resulting from tax exemption in favour of syndicates or associations who, according to their own law, are of the same nature as a joint stock company, we have the case of the Quebec United Fishermen in this province. This syndicate operates in Gaspé county, and in the city of Montreal. According to an official report, this cooperative syndicate was formed in April 1939 without share capital. According to the inventory of February 29th, 1944, it has a paid in capital of \$330. Nevertheless, profitable operations have resulted in a surplus of \$131,437. This syndicate was formed with the view of collecting, wholesaling and exporting the fish catches of fourteen fishermen's cooperatives of the Gaspé peninsula. It received an initial grant of \$30,000 from the department of Maritime Fisheries of the province of Quebec, and in 1942 borrowed \$48,000 from another cooperative organization, La Caisse Populaire. This loan of \$48,000 was guaranteed by the government. We presume that this guarantee was given to this fishermen's cooperative under an authority similar to the one which exists in chapter III of the statute of 1941 for Quebec, concerning the agricultural societies. This sum of \$48,000 was used to open a branch in Montreal which has charge of all sales, and this syndicate is now self sustaining, apart from loans in the usual financial channels.

"At the beginning of the season, they make advance payments to the fishermen of one part of the price of fish per pound, which is paid on the open market. At the end of the operations, the balance of the market price is paid with a difference of sometimes maybe \$0.0 $\frac{1}{4}$ over and above what is paid by the independent trade. In their financial reports, this last part of the payment is called a patronage dividend,

thus making it exempt from taxation, while it is truly a balance payment made on the price of the fish.

"In their financial statement of June 7, 1944, signed by Mr. Dionne, manager, it is shown that the net sales for the period ending February 29, 1944, amounted to \$1,112,000, and that the net profit was \$72,000. In saying net profit, we use the exact words found in that report. It is in that same report that we find the information above given, that is 'paid in capital, \$330.00, surplus, \$131,447.92.' In the financial statement of the same organization, it is shown that this surplus, or tangible net worth, was of \$27,088, in 1942, \$65,017 in 1943, and \$131,747 in 1944.

"This syndicate, with a branch operating for sales in the city of Montreal, does not, we respectfully submit, operate on the basis of a mutuality. It is one of the big competitors of the privately owned enterprises in the same field of business. In assuming that this same organization would operate under the Companies Act, these profits and surpluses would have been subject to taxation.

"We have prepared an estimate of the taxes to which such surplus and reserves and profits would have been subjected without the protection extended to these cooperative syndicates by the actual application of the law. We annex this estimate as schedule 'A'

"These profits, which are called so by their own manager in their financial report, are nevertheless far beyond the reach of the government because this competitor merely is operating as a cooperative. The discrimination of its other competitors clearly comes out now in the fact that this organization, with a tangible net worth or surplus of over \$150,000, is able to buy a property in Montreal at the cost of \$48,000, and furthermore erect in Gaspé a property

known as the chief office and warehouse which, with the late alterations made to it, has a value of \$65,000. Seventy-five per cent of the cost of the material of this property in Gaspé is paid or guaranteed by the government, and the mortgage on the Montreal property is held by La Caisse Populaire, and also guaranteed by the government through the Maritime Fisheries department.

"To illustrate the fact, that this Society has activities not limited to its members, and thus is operating solely on a basis of mutuality, we annex as schedule 'B' the list of fishes which they offer to the public and which in many cases do not certainly come from their producer members.

"The next door competitors of this organization, who have not the same advantages, and compete with it in operating as a privately owned corporation, cannot even dream of making such reserves which would allow it to look forward to an easier way to the post-war competition and conditions.

"These competitors who have to sacrifice the greatest part of their profits to the government for the common cause, actually know, nevertheless, that the buildings in Montreal and the buildings erected in Gaspé, and also the surplus in the coffers of this cooperative syndicate are the result of their own efforts, results which they could not keep, but which were given over to the government, and subsequently given back to their own competitors in the form of tax exemption, subsidies, or guarantees.

"This is why we have drawn the attention of your commission to the fact that your submissioners, in asking for their competitors, an equal treatment as that imposed upon them by the income tax law and the excess profits tax law, merely request the government to place their competitors

in the cooperative field in such a position that once they call to the open market, their activities and their operations will be fair competition and nothing else.

"Your submissioners do not ask for favours, they merely ask for a fair treatment, and they want the government to realize that they have the risk of their own investments, they give employment besides their share of contribution to the national income. These investments which they make are at their own risks, and are not covered or guaranteed by any government law. The result of the actual policy will unquestionably be to prevent these private enterprises from remaining tax-worthy, while their neighbours, the tax-free cooperatives, will carry on accumulating money to buy more warehouses and buildings and machinery which will enable them to eliminate the privately owned corporation as competitors.

VI. Conclusion

"As a conclusion of this probably too lengthy memorandum, we wish to sum up as follows:

"(a) Your submissioners have never criticized the application of the true cooperative method of doing business;

(b) They believe that this cooperative method is truly put into force only in the operation of mutual marketing organizations;

(c) They believe in the existence of a mixed system of economy, that is free enterprise on one side, and government aided cooperatives fostering the system of mutuality on the other side, but operating within the limits of equal and fair competition;

(d) They refuse to admit as a sound principle the existence of organizations designated as cooperatives, which derive their source of income in great part from taxes and contributions paid by the tax paying corporation on one hand, and who on the other hand, have the assurance of guaranteed profits, by not contributing any share of their benefits to the national

income;

(e) Your submissioners, as already stated, do not object to the existence of government aided competitors, if this aid is given only to the extent that it will allow the cooperative societies to reach the open market in the same position as the privately owned corporations;

(f) Your submissioners however object to the protection given by laws actually existing, which protection consists of allowing the cooperatives to sell to the public, make large profits and reserves, which the government cannot touch whilst on the same open market, the greatest part of the income of the privately owned corporations must be turned over to the national income.'

"For all these reasons, your submissioners respectfully submit that recommendations should be made to the effect that the gross injustice and gross inequalities existing in the fact that the benefits of one part of the traders is exempted from government control, should be corrected in order to cause those inequalities and injustices to be erased and at the same time promote fair competition, and allow the privately owned corporations to remain in the field of competition, in the thought that private enterprise should be encouraged in the interest of Canadian economy itself, and to prevent the existence of a danger which might easily exist in the fact that the government, in its willingness to aid mutuality, might have encouraged the creation and development of a monopoly who, by evading tax liabilities might very easily become the killer of the necessary private and free enterprise, in the economy of this nation."

In the brief submitted at Montreal the United Fishermen say: Well, it is out of necessity; we want to keep our clientele. We say if it is true for five per cent it is true for twenty-five per cent. I humbly submit that if they find

justification for setting aside the principles of mutuality for one part of their business they are not dealing within the limits of what is really mutuality.

I will have witnesses, just for a few questions -- I do not want to give any long evidence; just to produce these documents regularly. You have in schedule "B" here the official list prices given by Les Pacheurs Unis; this is their publication. They have there tortue sechee and truite du Pacifique -- do they find them on the Gaspé coast? This is trading outside of their members. But, they say, we have to do that to keep out clientele I am referring there to what they say in their own brief. Is this not an ordinary trading operation done by their competitors? You will find in their financial statement that they managed to derive a profit of \$131,000 -- because they say it is out of the necessity to keep their clientele; and so since they are a cooperative they keep the money they get out of buying and selling tortue sechee and truite du Pacifique; what we get as a private enterprise goes for the war effort. And when I say the war effort I am speaking of the services rendered in the interests of the general community.

These taxes did not exist when these cooperatives started to operate, and that is why we could compete with them at the time; that is why we did not complain. But when the war broke out and these high taxes were imposed, we were asked to contribute and give service to the nation. Now, if my neighbour is doing exactly the same thing, why shouldn't I ask him to contribute as well if he makes such excuses as this: I have gone outside the principles of mutuality, but it is necessary -- c'est par necessite pour maintenir l'esprit cooperatif.

When these laws were enacted the situation was not the same at all as it is to-day. In 1930 there was no necessity for these high taxes. These provisions that were put in the law, creating certain exemptions in favour of cooperatives, may have been justified to a certain extent -- I am not admitting that; I am just suggesting it might be so, because the situation at that time was one of fair competition; as the Chairman of the Commission asked Father Levesque, they did not want us to die; they did not want us to be away; nevertheless you will find in the report that in some countries they do ask it; they are very plain about it and very blunt too. But I am not saying it is their intention here, any more than it is ours to have them disappear.

So in 1930 when these sections were enacted in the Income War Tax Act the legislature may have thought, and rightly at that, that it would not affect too much private enterprise, that we could compete. Then came 1939 and 1940-- and it might be just a coincidence, but the profits accumulated by these companies of which I show the financial statement start in 1940. When I start paying high taxes they start making profits. Therefore we say that what existed in 1930 is not fair to-day. What existed when these sections were put in the law does not meet the true practical situation as it exists to-day. It was not the aim of the legislature at that time to allow what is being done to-day. This is our humble submission. We say we never dreamed that by enacting these sections in the Income War Tax Act they would allow one group of traders to make profits while they would cause the other to lose them. We are asking, and it is a suggestion which is made in our

brief, for a rectification of these laws, merely to put us in a fair competitive position, that is all.

Nous voulons en somme voir l'équilibre retabli.

Nous disons que les lois de guerre ont rompu l'équilibre qui a vait été établi jusqu'à un certain degré en 1930.

Même si les faveurs consenties aux coopératives n'empêchent pas la compétition nous demandons que la compétition soit rétablie et c'est pour cela que cette Commission existe.

Now we go further. Not only do we contend that many cooperatives to-day have forgotten the true spirit of mutual-ity, but, aside from the change in the situation due to the war, this system is being used by people to evade their obligations. I say this was never dreamed by the legis-lature. I know I am talking about things which the members of the Commission know much better than I do, but I think I can truly state that in some instances the cooperative system has been an invitation to tax evasion. This will always be so if discrimination continues to exist between private enterprise and cooperatives on account of the income tax and on account of the fact that they are allowed to keep the trop-percu, the boni, or whatever they call it. We have quoted in our brief one case where by merely affiliating to a cooperative a company which paid \$90,000 in income and excess profits taxes in 1942 and \$200,000 in 1943, this year is not paying anything. Now, it is so easy.

MR. PARKER: What company does my learned friend refer to?

MR. LACROIX: I did not want to mention it in the brief. I have given the reference.

MR. PARKER: Is there any evidence anywhere else as

to what happened? It is a very nice argument you are making, and I congratulate you on it, but we would like the facts as we go along if we can get them. Where are the facts on which you base the statement you have just made?

MR. LACROIX: I have quoted them from the Financial Post of January 27th. I have given the quotation purposely because I did not know whether I had the authority to give the names in my brief.

MR. PARKER: The authority is the Financial Post.

MR. LACROIX: This is taken from evidence given --

MR. PARKER: The authority you are quoting is the Financial Post.

MR. LACROIX: The statement I am quoting is the Financial Post.

THE CHAIRMAN: What page is that?

MR. LACROIX: Page 23 of my brief -- Financial Post of January 27, 1945. I believe they were giving reports before the Commission when it sat in Vancouver.

THE CHAIRMAN: This reference from the Financial Post is to something heard by this Commission in the west?

MR. LACROIX: I believe so, yes.

THE CHAIRMAN: Oh, that is what it is -- Fraser Valley.

MR. LACROIX: Fraser Valley -- I didn't want to mention it. Now, I was just going on to say that yesterday I asked either Mr. Cote or Senator Viallancourt as to how easy it is to evade obligations now imposed by the laws by becoming a member. You have the example of La Caisse Populaire. A man they have never known will go to the Caisse Populaire and pay five dollars, and then a new set of laws comes up on the surface for him, or new dispositions. I do not know how the affiliations could be made in the instance

which I quote on page 2w, but this I do know, and my learned confreres will bear me out in it I am sure -- that we are to-day consulted by private enterprise in many instances to find out how they can become affiliated to cooperatives, or if they can organize their business on the cooperative system. What is the purpose? It is certainly not to pay more taxes, because they do not want to pay any more. You are asking for facts --

MR. PARKER: I would ask my learned friend if they are actually doing it. What advice he is giving to his clients doesn't count.

THE CHAIRMAN: Mr. LaCroix is not under oath at the moment; he is not testifying, Mr. Parker.

MR. PARKER: I realize that.

MR. LACROIX: I always tell the truth, though. I do not, like certain witnesses, say, je n'etais pas sous serment. Even so I will ask you to keep within the bounds of my professional secret.

As a conclusion to this we submit that the reserves accumulated as a result of these trading operations are no different from reserves accumulated in the course of ordinary operations of joint stock companies, and we contend that these reserves should be taxed. On the other hand, as I have stated, if we are not found to be correct in stating that in the consumers' activities the amount by which they pay less at the end of the year is really profit and should be taxed, we at least ask that the same situation be created for private enterprise by the corrections which we suggest should be made in the Criminal Code.

I have given in my brief certain information concerning des Pecheurs Unis, and there were two or three points

put before the Commission yesterday which I would like to correct by witnesses; so if the Commission will allow me , I will do that. I understand I am not called upon to give evidence myself.

THE CHAIRMAN: Whatever witnesses you want to put in, Mr. LaCroix, you are free to do so. Do you want to do that now, or after lunch?

MR. LACROIX: I have four witnesses -- very short.

MR. PARKER: May I make one suggestion to my learned friend? It is not to embarrass him at all. The brief he has presented is signed by four different associations. Perhaps he would be good enough to put a statement on the record as to how many of their members have been consulted about this brief, and how it was prepared.

MR. LACROIX: I am sorry; I should have done that at the outset.

THE CHAIRMAN: Perhaps you might state that now.

MR. LACROIX: The Quebec Board of Trade started preparing the substance of this work about six or seven months ago. A survey of the cooperative system was made in the province of Quebec and recommendations made by the Quebec Board of Trade -- this was from June, 1944. This was distributed to all the members and these conclusions were discussed in public general meetings of the Quebec Board of Trade and finally it was after this work, done in conjunction with L'Association Patronale, that they entrusted us with the preparation of the brief. I can therefore truly state that if it was not the actual text that was approved, it was the substance; it is exactly the recommendations which were submitted to me to be submitted to the board.

As for the New Brunswick Fish Exporters' Association,

I have been told by the Secretary that contact was made with every member of it, asking for suggestions, and there was no objection indicated by those members. The only one I haven't had real contact with is ts the Quebec Junior Board of Trade, but I was informed they asked the secretary of the senior Board of Trade to put their name on that brief to be submitted.

At 12.30 p.m. the Commission adjourned until 2 p.m.

Afternoon Session

The Commission resumed at 2 p.m.

Paul-Alexander Morel
living in the city of Quebec,
47 St. James Street, being duly
sworn on the Holy Evangelists,
deposes:

By MR. LACROIX:

Q. What is your occupation? A. I am president of a concern known as Laurentide Dairy Products, Les Produits Laitiers Laurentide.

Q. Yesterday, in the course of the hearing, some witnesses told the commission since they organized a cooperative - and I refer particularly to the evidence given by Mr. Beauchesne of Plessisville - there was general improvement in farmers' prices. You do business with farmers? A. Yes.

Q. Will you tell the causes which, to your knowledge, could have brought a general improvement in prices since five years? A. We operate a very large condensed milk concern in the province; we receive 200,000 pounds of milk every day; we do business with Portneuf and Champlain farmers. I was once told by cooperators that they were taking advantage of the fact that prices had gone up to tell their patrons they received higher prices since 1939 thanks to the cooperative. I do not think any private or cooperative concern can take advantage of the fact that prices had increased in regard to cheese, milk and butter. Furthermore, subsidies of 30 cents per 100 pounds of milk are given by the government to farmers. We do pay them and we make application to the government with the supporting records.

In 1940 farmers received on an average \$1.39; in 1941, \$1.68; in 1942, \$2.07; in 1943, \$2.17 and in 1944, \$2.29. At the present time we are paying up to \$2.40 but I take the year's average which is \$2.29. That is not really due to the

organization or to the success of our business. I would not give our organization credit for that, we did not fix such an increase, it was brought about by war conditions.

Q. In the province, the price of such products is fixed by order of the Dairy Products Board? A. Yes, 43 S.P. 14 of the province of Quebec Dairy Products Board fixes an average price of \$1.95 for milk with a butter fat content of 3.5.

Q. I am asking you these questions because I noticed that Mr. Beauchesne had said in his evidence that since they had organized a cooperative, prices of the different products had gone up for different reasons. Would you consider such a fact as the main factor? A. It is the only factor.

By THE CHAIRMAN:

Q. Do some of your customers leave you to patronize cooperatives? A. No.

By MR. LACROIX:

Q. In the course of your transactions, did it happen that cooperatives went to you? A. I may add that presently, some cooperatives ship their milk to us. We started in 1940 by receiving 25,000 pounds of milk, now we are receiving 200,000 pounds, in other words eight times more than we received at the start; it is evident that some concerns lost patrons to us.

By THE CHAIRMAN:

Q. You do not feel the competition of the cooperatives? A. No.

By MR. LACROIX:

Q. Once your work has been turned into profits, can you keep such profits? A. That is where the trouble lies. If you had the advantage of being exempted from income tax, an advantage enjoyed by the cooperatives, it would be ten times easier for us to get organized and our own organization would lend itself to an enviable expansion.

By MR. BROSSARD:

Q. How do your prices compare with those received by members of cooperatives; the prices you pay to farmers who are not members of cooperatives, in comparison with prices paid by the cooperatives to their members? A. On the average, I think that we pay presently from 30 to 40 cents more per hundred pounds than the neighbouring cooperatives.

Q. Do you mean to say that your suppliers receive from 30 to 40 cents more per hundred pounds than the members of cooperatives you know are receiving patronage dividends included?

A. Yes; it is for that reason I said before that there are cooperatives in the neighbourhood of Trois-Rivieres, during a certain period of the year, during the winter, the dull season, which see fit to ship their milk to us rather than manufacture butter and cheese, because they find it more profitable. During the summer, it would be impossible for us to accept their milk because the quantity would be too large.

Q. How long have you been dealing with cooperatives?

A. Three years.

Q. Did you formerly deal individually with the persons who to-day are members of cooperatives? A. No, we were dealing with cooperatives.

By THE CHAIRMAN:

Q. You have good relations with them? A. I could not say that they are good because, indirectly, we harm them. On the other hand, we have a certain number of patrons and a certain quantity of milk. Now, we are not eager to send for milk during the summer months when there is plenty here.

By MR. BROSSARD:

Q. Did your company lose sources of supply by reason of the establishment of certain cooperatives? A. In the neighbourhood, the cooperatives are few.

Q. You did not suffer from the competition of the cooperatives, I mean on the market? A. No, because we do not produce the commodity we are manufacturing.

Q. You did not have to suffer from the fact or did you not complain of the fact that the cooperatives were not subjected to income tax or to excess profit tax? A. I may say that if a cooperative were organized and competed with us by establishing an enterprise similar to ours, which more or less, would equal ours and if such enterprise were exempted from income tax, our own undertaking would immediately fall away to nothing.

Q. Why? A. Because the profits we realize over and above the maximum set by Ottawa, we are forced to give them to Ottawa, in the ratio of 100 per cent, while the cooperative could retain such profits.

Q. That's your case now; you have to pay Ottawa 40 per cent of your income and of your excess profits? A. Yes.

Q. Yet your business has increased. You have suffered up to now, except in respect of your personal income as a shareholder? A. No.

By THE CHAIRMAN:

Q. But you are afraid of it? A. Yes, should a cooperative open up in the neighbourhood.

By MR. BROSSARD:

Q. Do you think the volume of business would fall if there were a cooperative? A. Yes.

Q. And do you think it would be a danger to you on account of the tax exemption? A. Yes.

Q. Don't you rather think that it would be on account of its being a cooperative and because it would take from you a certain number of your present purveyors? A. That would be one reason, but the chief one would be the advantage they would enjoy of having no income tax to pay.

Q. And if it refunded to its members the total amount of profits realized on its operations, would you still say the same thing? A. Yes, because not getting it, your position would not be different.

Q. If a cooperative was established and gave the whole of its profits to its members, how would you be worse off? A. Because it would be difficult for me to do the same.

Q. Because the members would get more for their milk than they are getting now? A. It is quite possible that they could pay better price than we can.

By THE CHAIRMAN:

Q. Have you ever thought of turning your enterprise into a cooperative? A. We thought of it.

Q. Why did you not do it? A. We only thought of it lately.

Q. But you have it in mind? A. We have considered it.

By MR. BROSSARD:

Q. You have considered the possibility of turning your enterprise into a cooperative? A. Yes.

By MR. LACROIX:

Q. If I understand your reply correctly, you mean if a cooperative was organized to carry on the same business as yours in the same district, because of the advantages it would enjoy under the present laws, you could compete on equal terms? A. No.

Q. And if a cooperative were to put its income into accrued reserves, could you compete? A. No.

(The Witness Retires)

Alfred Gravel

residing in the city of
Quebec, 86 Bougainville Street,
being duly sworn on the Holy
Evangelists, deposes:

By MR. LACROIX:

Q. What is your occupation? A. Manager of the Avard store.

Q. What is the business carried on by that company?

A. Grain and balanced feed.

Q. I heard yesterday - and you probably did yourself - Mr. Beauchesne mention in his evidence that before a cooperative was organized the prices of feed and various other products compared very unfavourably with present prices and moreover, from the point of view of weight. From your personal knowledge has the enterprise interfered in respect of weight? A. Yes.

Q. What happened? A. They had been complaining about the packing of goods for a long time. Formerly 90 per cent of the trade was by truck. You cannot imagine what a wholesaler is up against when grain is packed in bags of different weight. We tried to make improvements; we asked the authorities for help. We asked Ottawa to find out if it would not be possible to pass a federal act providing for uniform weight in the feed trade. We asked the Cooperative Federee to help us, we had a resolution approved by the annual meeting of the U.C.C. who were very helpful. Unfortunately, I can't say the same about the Cooperative Federee; they said they were not interested in the matter. We had no luck that year. In 1940 we again appealed to the federal government. In 1941, we were advised by the grain office, thanks to the help of the Canadian Food Manufacturers of Montreal who are affiliated with the Ontario Food Manufacturers, that we had succeeded in obtaining a uniform weight for grain.

Q. You took up the question as private business men? A. I must say that if the present law is in force, it is due to our efforts, it is thanks to us.

Q. If there were in a parish, according to Mr. Beauchesne's evidence, a few things that were wrong, you put them right in the whole province? A. It was done before the law was passed.

By MR. BROSSARD:

Q. I have here copies of some correspondence. Would the commission like me to produce them?

The CHAIRMAN: Yes, you can file them as exhibits.

Mr. LACROIX: I shall have copies made.

By MR. LACROIX:

Q. I understand it is through your efforts that you obtained Order A-306? A. Yes.

Mr. LACROIX: With the commission's approval, I shall have these regulations copied and added to the record. I shall file them as exhibits to Mr. Gravel's evidence.

By MR. LACROIX:

Q. Now, as to prices, can you explain? Mr. Beauchesne explained yesterday - I was particularly impressed by his evidence - "that for various reasons prices had risen"; he used those words. Will you tell us, from your personal knowledge, what are those reasons which, apart from the existence of a cooperative, had caused a rise in price? A. Before the law was passed, the merchandise was sold according to the bag's contents. I brought with me lists of prices paid in 1939 showing the price at which oats was sold. When the act on uniform weight was passed, the price increased somewhat. And besides there is the market, the demand.

Q. Is there a substantial change since the beginning of the war? A. Not exactly. Now there is government control, a price ceiling; before trading was free, there were ups and downs every day.

Q. According to you, to your experience, did the existence of a cooperative in the Plessisville district cause prices to increase or is there some other cause? A. I do not think the establishment of a cooperative has brought about the increase in prices. The local merchants in Plessisville probably did not sell at higher prices than in other localities.

Q. Did cooperatives force you to increase your prices on the general market or were there other causes? A. Prices were not increased; the market prices prevail; the prices of the cooperative do not come into the picture. Naturally, business suffers through the fact that the cooperatives with which we would like to do business are unable to do it because of their affiliation with the Central Cooperative. The same thing exists with the merchants, those with whom we were formerly doing business. Where there is a cooperative in their district, business has fallen off.

By MR. BROSSARD:

Q. You deal with local merchants? A. Yes.

Q. Has your turnover considerably decreased since 1939?

A. It has increased.

Q. A normal increase? A. Yes.

Q. Because of the increased demand? A. Yes.

Q. You still do business with the merchants? A. Yes, 80 to 85 per cent.

Q. Not with private individuals? A. No, no retail business.

Q. Can you state positively before the commission that your own business, that of the Avaré firm, has been affected by the establishment of cooperatives in some parishes of the province? A. Yes.

Q. In many localities? A. Yes, in many localities. I can tell you why. For a long time we have been asking our local country merchants to organize, to look after their customers, to wake up. Those who woke up carry on as before. Naturally, 40 per cent of the country merchants are more or less efficient in business, particularly those who gave up farming to become merchants; they lack experience. Generally, in the district we cover, about one-third of the good merchants have been able to carry on through their efforts.

Q. In your case, your turnover with those merchants has increased? A. Yes, the demand has considerably increased since the war. If the demand had been normal we would sell less.

Q. You sell more than formerly? A. Yes, the demand has increased; milk production has gone up substantially, bacon has increased; the consumption is large.

Q. But you buy more to-day than you used to? A. Yes.

Q. It cannot be said in your case that cooperatives have caused your ruin? A. No, but the future must be considered.

Q. You are fearful about the future? A. Yes.

Q. Is that competition met by some of your customers from cooperatives the result of those cooperatives not paying taxes or is it the consequence of those cooperatives grouping the producers of a particular district? A. The answer to that question may be divided in two or three parts: in some districts it may be a lack of organization on the part of the merchant, in other areas it may be the result of a sort of canvassing, and in other cases the reason is that the merchant is not interested in grain because he makes no more profit out of it and he gives up his business.

By THE CHAIRMAN:

Q. Do you fear the competition that you meet? A. Yes, more than ever; we fear above all the kind of operations that are actually going on between the small country cooperatives and the body.

Q. For what reason? A. Because I would dare say that local affiliated cooperatives can no longer buy where they want. It is said there are now between 400 and 500 of them. If they have their way for ten years, that will mean so many cooperatives to which we shall not sell. It is my duty to look into the future. If such things are not checked, our business will vanish, especially after the war.

Q. What remedy do you suggest? A. I would say free trading.

By MR. LACROIX:

Q. If those cooperatives were liable to the same obligations as you are from the angle of taxation, would they have cause for apprehension? A. I am more fearful of affiliation to the central body.

Q. If the central cooperative was liable to the same obligations as you are, would you be in a better position to compete with it? A. Yes, I would be in a better position to do business.

Q. I mean as to taxation. When you compete with the central cooperative which groups those local cooperatives, you compete with some one who pays no taxes. If they were paying taxes, would you be in a better position to compete? A. Yes.

Q. At the present time, there is a demand resulting from special conditions? A. Yes.

Q. But under normal conditions, assuming that extra demand did not exist, would your business have suffered? A. Yes.

Q. It does not suffer at the present time on account of war conditions? A. No.

Q. But it will if conditions return to normal? A. Yes.

By MR. BROSSARD:

Q. How do your prices compare with the cooperative's? A. They are about the same.

Q. How do your customers', the retailers' prices compare with those charged by the local cooperatives to their members?

A. It is somewhat difficult to say; but when I said a moment ago that a fairly large number of merchants were successful in their business, it means that they sell at lower prices than the cooperative.

Q. It is on account of their own business methods that

they succeed in carrying on? A. Yes.

Q. And to offset the influence of the association spirit among cooperators? A. Yes, in spite of that.

(Conclusion of his evidence)

Eugene Bois

living in the city of Quebec,
Square Parent, being duly sworn
on the Holy Evangelists, deposes:

By MR. LACROIX:

Q. What is your occupation? A. Commission grain dealer.

Q. Where? A. In Quebec city.

Q. During the hearing before the commission reference was made to the absence of the speculative element in transactions handled by cooperatives. To your knowledge, were you aware of certain facts, among your cooperative competitors, which could enlighten us on the matter? A. On different occasions, yes.

Q. Would you tell us what happened? A. Naturally, cooperatives established since the beginning of the war found it impossible to speculate; but if we go back before the war when we had a speculative market, it is not the same. If a firm needs 10,000 bushels and buys 20,000 bushels it is speculation. As far as the Cooperative Federee was concerned, it was buying 25 or 50,000 bushels in the fall; it was buying imported corn from South Africa or Argentina in 100,000 bushel lots.

Q. Did it buy any to your knowledge? A. It was buying from our firms.

Q. Were these products offered? A. Yes, they were being offered everywhere; that is where it was becoming a speculation since the grain was being sold three or four months after being put in warehouses. That proves it was speculation.

Q. It has existed for a long time? A. Yes.

By MR. BROSSARD:

Q. Do you maintain that the Cooperative Federee sold to others than its members, even to dealers? A. The cooperative had an agent in Mr. Belanger's warehouse and he was selling on the Quebec market.

Q. Do you maintain that you lost customers? A. It is a question of market prices.

Q. You have no regular customers? A. Of course, that was before the war. You had for instance two wool importing firms, the Toronto Elevator and the firm of Richardson. The cooperative was buying from either, and it had to sell the grain it was buying from our firm to get rid of it, and sometimes at a loss. It was a sale for us but it was becoming a kind of competition particularly with the Quebec wholesalers in the country.

Q. Did you lose any customers? A. We lose some one day and we get them back the next day.

Q. You fear the Federee's competition particularly for the future? A. I fear it this way; if they are given too many privileges. Let us take for instance cooperatives established since the beginning of the war. If they are given the right to accumulate surplus earnings, they will have purchasing power after the war. You know that the grain market is a speculative market. Even with regard to those who buy grain in carload lots, it becomes speculation. The wholesaler must necessarily have his grain on hand, nevertheless he is bound to make a profit on his purchases or even suffer a loss. He may buy a carload of oats in the morning for 54 cents, and in the evening it is worth 51 cents.

Q. What are you complaining about, is it that the Federee has been in a position to buy large quantities? A. Yes, beyond its selling power.

Q. And that it sold under the best possible terms and that it injured you by selling its surplus? A. Yes, when it has been in its possession too long it has to get rid of it.

Q. How do you link that up with the privilege of tax exemption enjoyed by the Cooperative Federee? A. If it is possible for the cooperative to accumulate profits this enables it to make larger speculations. It is the same with me, I am an agent; if I have a good capital I have more chances on the market. You have agents who represent a company; if they have money they speculate and if they have no money they do not.

Q. Did it ever happen to the concern you represent to buy, thanks to its reserve funds, more goods than it needed immediately? A. It is obvious that was speculation; that is another matter.

Q. The same with the Cooperative Federee? A. Yes, it amounts to saying that the Cooperative Federee is a business identical with ours, as far as purchasing power is concerned.

By MR. NADEAU:

Q. Do you mean to say that the cooperative has previously sold grain to merchants? A. Yes.

Q. Did it come to your personal knowledge? A. Yes, I bought some myself and because they have an agent who represents them in Quebec city. Other wholesalers could tell you they were offered goods by its agent.

(Conclusion of evidence)

Lionel Roussin

living in the city of Quebec, Avenue
des Braves, being duly sworn on the
Holy Evangelists, deposes:

By MR. LACROIX:

Q. You are a chartered accountant? A. Yes, and C.P.A.

Q. What firm are you associated with? A. Chartre, Samson,

Beauvais, Gauthier and Company.

Q. Will you examine this document attached to the brief as Schedule A and say if you recognize that document? A. Yes, I am the one who prepared those figures.

Q. I understand the figures given here as being the taxable income...

Mr. LACROIX (Text): May it please the commission. In the brief there is a reference to Schedule A, which has to do with the United Fishermen. You have the reference at page 26.

Q. (Translation): Those figures, as taxable income, you took them in a report?

Mr. LACROIX (Text): I have a confidential report made by a firm on the operations of this organization, as to which I will inform the commission when I get the information. These figures have been published in different public reports by the United Fishermen themselves. I have here only the report for 1942-1943; unfortunately I have not the other reports. I know that these figures were given under the signature of Mr. Dionne, their manager. Do you deem it necessary, Mr. Chairman, to question the witness on these confidential reports?

The CHAIRMAN: I do not think so.

Mr. BROSSARD: The United Fishermen have themselves filed reports.

Mr. LACROIX: I have communicated to Mr. Brossard the source of my information.

Q. (Translation): You had a report whose nature I shall not reveal but which gave you those figures? A. Yes, the report gives the figures of 1943-1944, and as for the three preceding years we have distributed the surplus on an arbitrary basis.

Q. The amount of \$37,929 is the reserve in 1943? A. It is the increase of the reserve account in 1943.

Q. And in 1944 you had \$66,730? A. Yes, in the same way,

by comparing reserve accounts.

Q. Now, taking for granted that such a cooperative had been established in 1939 ...

(Text): This statement, which relates to the United Fishermen, tries to establish what amount of taxes they would have been called upon to pay on their profits or on their reserves had they been treated in the same way as a joint stock company. I respectfully refer the commission to the Excess Profits Tax Act, section 5, sub-paragraph 2. In the light of this section, if we take for granted, as is shown in the report, that this company was organized with a paid-up capital of \$330 in 1939, it is a safe proposition, I think, to say that it would be very difficult to get more than \$5,000, as an authorized standard profit; nevertheless we have calculated the obligations in taxes on various standard profits up to \$60,000, so we have been very generous in that regard.

A. (Translation): Taking for granted that this company had reached \$50,000 as the basis of an authorized or standard profit, would you tell us what amount of taxes it would have been called upon to pay? A. \$102,220 of which \$16,000 would be refundable after the war.

Q. The other figures, without my having you work them out, are based on the same system? A. Yes, on the same basis, by changing the standard into \$60,000 and so on.

Q. How many years of experience have you had as an accountant? A. Eleven years.

Q. In the practice of your profession you have been called upon to make up financial statements for different companies?

A. Yes.

Q. Have you been called upon to study the acts relating to the operations of cooperatives? A. Yes, lately, I became acquainted with the acts.

Q. Have you been called upon to examine financial statements of cooperatives? A. Only the one you looked into a moment ago.

Q. From a practical point of view - and I use such a word advisedly - is the profit, the taxed surplus in a limited company different from the profit or what is called the undistributed overpayment which is put in a cooperative's reserve fund? A. No, it represents its surplus earnings, whatever may be the term.

Q. I noted yesterday the definition, which however is not debatable, given by Reverend Father Levesque of the word "profit" when he said it was the excess of selling price over cost. Then, taking into account the fact that profit is the excess of selling price over cost, from the point of view of transactions you do not see any difference between these reserves or this accumulated surplus at the end of the year and a company's profits? A. You said "accumulated reserves", do you mean the current year's reserves? There are also accumulated reserves.

Q. Let us say for a year. A. It is the same thing.

By MR. NADEAU:

Q. If a cooperative's over-collection is distributed during the year when it was made, do you call such an over-collection a profit? A. It depends on what basis it is distributed.

Q. If it is fully distributed? A. On the basis of purchases or bought goods?

Q. Bought goods? A. It would be a readjustment of the sale or purchase price.

MR. LACROIX: This concludes the hearing of the evidence. I would just like in concluding my own remarks, if you will allow me, to refer the Commission -- and I hope I don't scandalize Mr. Parker this time -- to an article from the New York Times. I will put it on the record, if you will allow me; it was published in that paper in the issue of July 6, 1944. I will read one paragraph:

"In other words, while private enterprise is paying the cost of the war through the highest taxes we have ever known, buying the guns and tanks and planes and ships that our boys at the front must have, the cooperatives are sitting placidly on the sidelines figuring not what they can do to help the United States to victory but how they can pile up their profits to dominate the business scene when the war is over."

I do not refer to conversations that are given there; they refer to the situation in the United States. But actually, to further illustrate the example given by Mr. Roussin on the question of fisheries, I do not see how we can regard the operations of this company as true mutuality. You have in the list that I showed you this morning various products which certainly do not come from their members and which are certainly not sold to their members, but from which they derive sums which represent an enormous profit on that paid-in capital. They have property in Montreal on which there is a mortgage for \$48,000 guaranteed by the government through the fisheries department here. They have managed to build at Gaspe a warehouse and office building, seventy-five per cent of the materials being paid by the government. Their reserves are absolutely beyond the reach of the government to-day. It is absolutely unfair to call upon private enterprise to carry all the burden of the biggest part of the national

taxation, and at the same time to take a large part of that money and use it to guarantee profits to our competitors. I was glad to hear your lordship a moment ago question the witnesses and finding out what their reactions to it were. It is not an illegal method of tax evasion; it is a matter of self-protection, of survival --

THE CHAIRMAN: Anyone can step outside the tax statute if he can do so legally.

MR. LACROIX: Surely it does not come to the point that it is the aim of the cooperatives to force private enterprise to step outside of what they have been doing and try to become part of an organization to evade taxes. If that is the result of the application of these laws, I humbly submit we are amply justified in asking that certain corrections be made -- not to give us favours; we are not asking that, but at least to give us fair play. These are the remarks which I wanted to submit to the Commission.

MR. ARNASON: Would you permit a question, please, just for the sake of clarification?

MR. LACROIX: I am never afraid of questions. It is of the answers I am afraid.

MR. ARNASON: Well, on page 28, paragraph (b) of your conclusions, you say: "They believe that this cooperative method is truly put into force only in the operation of mutual marketing organizations." Am I to understand that you mean by that that a cooperative that markets only the products of its own members is operating on a mutual basis and therefore does not make a profit?

MR. LACROIX: Provided that whatever they get from it is divided immediately amongst the members. I believe what sums up this thought would be the illustration that is given

by the Syndicat de Travail. Our contention -- we may be wrong at that, but we think not -- is that the moment you have separate legal entity which comes in and is created by our laws, which is called in the nature of a joint stock company and operates in the same way and at the end results in surplus money -- well, call it what you will, I think it is not mutuality. Because otherwise, as was stated yesterday, if I buy shares in a company, it might be an investment, nevertheless I become part owner of that venture and of the stock and at the end of the year I am just taking part of what belongs to me.

MR. ARNASON: Excuse me; I am not quite certain whether I follow you. Is it the act of incorporation that would destroy the mutuality, in your opinion?

MR. LACROIX: Not only that; this is one of the elements. But I go as far as to contend that the operations as carried on to-day are only commercial trading operations, that is all. You have an example of it; they buy from non-members; they sell to non-members.

THE CHAIRMAN: Every lawyer naturally would insist on the separate legal entity of a corporation, since the case of Solomon and Solomon in the House of Lords. I understand that view is not accepted by all economists, but so far as I know every lawyer and every judge accepts that principle now -- I think I am right in that, am I not?-- the idea of the corporate body being a separate legal entity from the persons who constitute it.

MR. LACROIX: Yes.

THE CHAIRMAN: That was the Solomon and Solomon decision in the House of Lords.

MR. LACROIX: That is quoted in the Brackman-Kerr

brief. I do not know about the laws in the other provinces; I will admit frankly I am not familiar with them.

THE CHAIRMAN: They are quite well made.

MR. LACROIX: I believe they are well made. But I believe as far as Quebec province is concerned expressions used and the word "profits" in the law are on the same level as the joint stock company, except for the fact as to control; but there is a limited responsibility. Chapter 290 is not very different from our companies act.

THE CHAIRMAN: It declares that the incorporated becomes a separate legal entity.

MR. VAUGHAN: In your concluding remarks this morning you showed that reserves should be taxed. Would you explain more fully what you meant when you showed that?

MR. LACROIX: I respectfully submit once a surplus is established it should be submitted to the same obligation as what happens to the surplus of a joint stock company.

MR. VAUGHAN: Just what do you mean by surplus? The total profits?

MR. LACROIX: Yes.

MR. VAUGHAN: Before distribution of any kind?

MR. LACROIX: Before distribution of any kind.

MR. VAUGHAN: Before there is any patronage dividend paid?

MR. LACROIX: Yes -- because this is what would happen. I am not concerned with the individual cooperator in his own personal income. But if this section 526 to which I referred this morning, and section 6 of 290 as amended in 1943, declares these operations are not profit-making operations, have they the right to tax them even when dividends are declared? They will reach the point: "Well, they are

not profits I have made; I am just taking back part of what is my own." It might be just a capital disbursement, if I say it correctly; it is not revenue.

MR. VAUGHAN: When you make that recommendation are you referring to cooperatives alone or do you include also credit unions and mutuals?

MR. LACROIX: Mutuals particularly. I know certain mutuals operating in the insurance field which, as I am told, seem to operate exactly on the same basis as the Syndicat de Travail, where it would be mutuality. Wherever it is mutuality we do not ask that you apply this principle. But we say you have gone beyond that; if you analyse your operations the only difference between you and me is that you call profits by some other name.

THE CHAIRMAN: I take it your argument is this: whatever the surplus may be, call it profit, gain, or anything you like, His Majesty in the right of the dominion has nothing to do with the disposition of that surplus; if a surplus exists it should be taxed; that is your argument -- no matter whether it is given as a patronage dividend or as interest or as any other way you like?

MR. LACROIX: Well, in a joint stock company --

THE CHAIRMAN: Which is the case in a joint stock company.

MR. LACROIX: Exactly. If the Commission comes to the conclusion that we are right in contending they are only trading operations, then if they want to have the same privileges as are granted to a joint stock company, we say, take at the same time the obligations.

MR. VAUGHAN: Now, do we understand that you are speaking of cooperatives alone, not the mutuals or credit unions?

MR. LACROIX: Truly I am not prepared --

MR. VAUGHAN: You are just speaking of the cooperatives?

MR. LACROIX: Exactly.

MR. VAUGHAN: Will you look at clause (e) of your conclusions: "Your submissioners, as already stated, do not object to the existence of government aided competitors, if this is given only to the extent that it will allow the cooperative societies to reach the open market in the same position as the privately owned corporations;"

MR. LACROIX: I am referring strictly to provincial aid.

MR. VAUGHAN: I see. The question I was going to ask was how you would relate that to your proposal as to taxing of the profits. This would indicate that there might be assistance to a certain extent.

MR. LACROIX: Up to that time I contend they are just building up the cooperatives. They have not started to compete. These subsidies which they have, this financing at low rates of interest and all these guarantees on mortgages, aid in the construction of buildings and so forth--in that you are building them up, and we do not object to that. I would like to be well understood on that point. It would not be fair at all on our part; I would go so far as to say we do not object to having a competitor. But once you have built them up, then we go further and we reach the competitive field.

MR. VAUGHAN: Now you are referring strictly to provincial legislation?

MR. LACROIX: Yes.

MR. VAUGHAN: And provincial aid?

MR. LACROIX: Provincial aid, yes.

MR. VAUGHAN: And what you say applies to any kind of cooperation?

MR. LACROIX: Yes.

MR. VAUGHAN: Coming within the dominion legislation?

MR. LACROIX: Yes.

MR. VAUGHAN: Now, just one other point. This morning you asked that a paragraph on page 17 of your brief be left for the time being. Did you strike it out?

MR. LACROIX: No. I made an affirmation there of which I was not sure, and in reading over my brief last night I thought I would reserve it. But I cannot say yet whether it is to stay in or be struck out.

THE CHAIRMAN: You will tell us whether to leave it in or not?

MR. LACROIX: Yes.

Le Syndicat D'Initiatives Rurales

Leroy Poulin

residing in the city of Quebec,
being duly sworn on the Holy
Evangelists, deposes:

By MR. BROSSARD:

Q. I read on the title page of your brief, after the description "Le Syndicat d'Initiatives Rurales", the words "Societe regie par la Loi des Syndicats Cooperatifs de Quebec". Am I to understand that this syndicate is either a consumer cooperative or a producer cooperative? A. It is a cooperative established under the Quebec Cooperatives Syndicates Act.

Q. What kind of a cooperative? A. Here are the facts; we are a group of agricultural technicians who are interested in social and economic problems and we decided to form a group according to law in order to facilitate our work in the economic and social field and facilitate our means of action; in a word, to acquire as cheaply as possible books, pamphlets, publications, subscriptions for our members.

Q. When was this cooperative established? A. On February 14, 1945. On the other hand I must tell you that, as agricultural technicians, we have interested each member since a good many years, ten, twelve, fifteen, perhaps twenty years.

Q. That society did not break away from the corporation of agronomists, did it? A. It has absolutely nothing to do with the society of agronomists.

Q. Is it composed solely of agronomists? A. At the present, yes, but not according to the by-laws.

Q. Were the by-laws drafted and submitted to the provincial secretary? A. The by-laws have been prepared but they were not submitted.

Q. Is it provided that only agronomists shall be members?
A. No.

Q. Is it above all a study club? A. Yes.

By THE CHAIRMAN:

Q. Are you numerous? A. We are 14 at the present time and we do not wish to have a big membership.

By MR. BROSSARD:

Q. Was your brief submitted to the 14 present members?

A. No, I may show you a credential.

Q. Was the brief drafted before you had formed a cooperative syndicate? A. It was drafted before.

Q. It is the expression of opinion of the 14 members who form at the present time the "Syndicat d'Initiatives Rurales".

A. Yes.

By THE CHAIRMAN:

Q. Will you please read us your brief. A. Before reading this brief, I would like to state the facts. Personally, I do not intend to give up my rights and privileges as an agronomist, but I do not speak in any way on behalf of the Agronomist Society or any agronomic affiliation, I want to emphasize that point, and I do not want to involve the society in the views I am going to express.

Brief Submitted to the Royal Commission of Inquiry
on Cooperatives

b y

Le Syndicat D'Initiatives Rurales

(A Corporation governed by the Cooperative Syndicates
Act of Quebec)

Prepared by Leroy Poulin, agronomist.

The centenary of the cooperative movement which the Rochdale pioneers have bestowed upon mankind will not be ignored in Canada. But it might have been observed otherwise than by dangling a sword of Damocles over it. However, since arrangements for this centenary were undertaken by big financial,

commercial and industrial interests, could one reasonably expect anything else? The basic, though concealed, reason of the whole campaign against cooperatives aims to suppress a movement which interferes altogether too much with the inter-profit and loss of certain organizations whose sole purpose is to make profits and pay dividends. Having failed so far to kill the cooperative movement either through contempt or a conspiracy of silence, through boycott or dumping, its enemies are putting pressure upon public authorities to deal it a death blow through the imposition of taxes. It is under cover of distributive justice that they hope to give it a first class funeral.

This brief does not go beyond general considerations and treats the question primarily in relation to agricultural cooperatives.

In order to define cooperatives we would refer to A. Nast in his "Cooperative Principles":

"Cooperatives are special organizations being defined both by their purpose and the means used to achieve that end.

"The end is, according to the object of the cooperative, either to realize for all concerned the greatest possible saving on the purchase or the rental of the things they need, or to secure for them the greatest remuneration for their work.

"The means is the union of all persons anxious to secure the same advantages and the formation of a common enterprise with a capital contributed by all members.

"In order to keep the means working towards the end, the social surplus is divided among the buyers, the borrowers, the lessees or producers, as the case may be, in proportion to their volume of business or work with the organization, after deduction of the amounts allocated to services and

and reserves provided for in the statutes with a view to the spreading of cooperation."

We have selected this definition because in addition to defining cooperatives correctly it clearly indicates that in such organizations persons come first and capital is entirely subordinated.

This method of doing business is peculiar. They call upon the efficient and willing assistance of their members. One could not better emphasize the social aspect of cooperatives.

Two basic facts emerge from this definition: cooperation does not seek or make any profits in the accepted sense of this word in accounting; cooperation is a social movement having in view the material and economic, moral and social welfare of its members.

In the opinion of all persons engaged in social welfare among the masses, and particularly of Quebec agricultural experts in their contacts with the farming class of that province, the cooperative movement is recognized as the most perfected and the most efficient instrument of education and of material and moral reestablishment of the people. Everywhere in our rural districts the local cooperative is a school of technical and material, moral and social progress, not only for its own members, but also for the general public through example and daily contact. It would take too long to illustrate these facts by means of concrete examples, but that is so nevertheless.

In this province, agricultural experts with over 25 years' experience with the farming population, have long ago ascertained that cooperatives are the medium indispensable to the spread of scientific farming, and rational methods of cultivation and stock-breeding; they are the only organizations

capable of preparing the marketing of a production like ours, varied in character, small in volume at the source and not uniform in quality. Without our cooperatives, farming in our province would have remained in a rut; without our cooperatives our trade would still be at the chaotic stage where it was during the early years of this century.

It is thanks to our cooperatives that official statistics show a rise in our farm production, and it is again thanks to them that we have succeeded not only in winning domestic and international markets, but in expanding them.

It might be well at this point, by way of digression, to mention what is being done to-day. It is mostly through our agricultural cooperatives that the farming industry in Quebec has been able to respond in a big way to the pathetic appeal for increased production in war time. On the food production front, cooperation has taken command.

Disregarding figures, reference may be made to two passages of the report of the Minister of Agriculture for the years 1941-42 and 1942-43 in this matter:

"To meet overseas requirements, production shall not only be increased, but cultivations shall also be directed towards new productions. In the face of that situation, cooperatives have displayed a great deal of flexibility and adaptability.

"By grouping, grading and packing farm products according to the needs of the moment, the local cooperatives have been of valuable assistance in meeting the war requirements." For all those reasons, our cooperatives deserved well of the nation, they became very valuable national institutions and what has been said of cooperatives in foreign countries, can be said with equal appropriateness of the former, namely, that they are the "Universities of the people".

To tax cooperatives, is after all to tax the only schools available to the lower classes, the mass of the people to whom fortune, status and privileges have closed the door to state-controlled higher teaching institutions.

Let us agree for the sake of discussion that cooperatives should be taxed. On what shall the taxes bear? On profits? But according to its internal and essential constitution, there are no profits in a real cooperative. So much so that as soon as the books show a surplus of revenues over expenses, the overpayment is disposed of through the patronage dividend. To ask that the profits of cooperatives be taxed is to ask that something which does not exist be taxed. All economists agree that the patronage dividend is an overpayment refunded by the cooperatives at the end of the fiscal year so as not to harm trade prices and thus prevent a price war.

Shall we be required to tax the reserves of the cooperatives? In some quarters, reserve funds are put forward as a conclusive argument establishing the evidence of profits. The argument presents a brilliant frontage, but is fundamentally beside the point.

De jure and de facto, every overpayment is subject to the patronage dividend which belongs by right not to the cooperative, but to the members. Experience however has long sought to teach cooperators that they must be careful in the management of their business. If cooperatives pretend to reject certain faults peculiar to the capitalist system, they cannot refuse one of its few qualities. In addition to business hazards, there are also competition which is not always fair, expansion, renewals and so on and so forth.

To avoid these dangers and meet those needs, cooperators endow their cooperatives with reserve funds. Those funds are set up freely by members who give up part of their patronage

dividend in favour of their cooperative. And the portion they give up in that manner is determined by the minimum requirements of the latter as prescribed by experience and without which their life and continuation would be endangered. To tax those funds would be to tax their sole means of continuity and frustrate their development.

When it is considered that the largest majority of our cooperators are small property owners often burdened with mortgages and debts, people who are poor craftsmen and workers, we readily acknowledge the obvious fact that the sacrifices they make for their cooperatives are restricted to bare necessities to ensure the life and operation of institutions which they regard as essential. If, therefore, the reserves of cooperatives were taxed, members would be forced to make undue sacrifices to support institutions recognized by the people as necessary to the public welfare.

One aspect of the policy of taxing the reserves of cooperatives is the actual danger of doing an injustice through tax duplication. If the taxpayer is already subject to taxation, why run him to earth as a cooperator? If, on the contrary, the member is so poorly remunerated that he is unable to bear the tax burden, by virtue of what principle is he going to be taxed indirectly on the reserves he sets up with numerous sacrifices for himself and his dependents, and compelled to make even more sacrifices for the maintenance of an institution which he rightly regards as vital for himself and his followers? As a matter of fact, every tax paid on the cooperative funds will have to be offset by the cooperator, because the reserve funds are the essential minimum compatible with a sound direction. Should there be any doubt in certain minds about this, it would be sufficient to refer to the extremely long list of defunct cooperatives, all extinct, or very nearly,

suffering from the same ailment, that is, lack of capital.

To tax cooperatives on their reserves constitutes with respect to cooperators an unfair way of levying a double tax on members, first separately and then jointly, or, what is even worse, of having the tax burden borne indirectly by a class of people whom law generally recognizes as unable to pay taxes. To tax cooperatives on their reserves is an effective way of suppressing the latter by depriving them of the only means of withstanding the hazards of business or the blows of competition.

It might not be superfluous to introduce at this point the Quebec agricultural cooperatives, and to recall briefly their mode of operation.

Caissees populaires apart, there were 536 agricultural cooperatives in the province, with 39,610 members, as at March 31, 1944. Assets totalled \$10,119,808; liabilities \$5,934,189. The reserves amounted to \$2,488,579 and the surplus to \$1,697,038. The turnover was \$33,923,326 with an overpayment of \$943,377. Our agricultural cooperatives are conditioned by the characteristics of our rural economy. Our holdings are small and devoted to diversified production. Hence the varied individual production of our farms is in restricted volume. Under those conditions, an organization designed for pooling the products, grading them and dressing them up in a uniform manner is indispensable both for domestic and foreign marketing. This is the work undertaken by our agricultural cooperatives and they are doing it better and more cheaply than any other organization.

In most cases they are small institutions by means of which the farmers of a parish pool their individual production in order to make up a volume consistent with economic processing of the products or capable of ensuring uniformity in the

quality or the presentation of the products.

Such is the typical case of our butter and cheese cooperatives. The same applies to maple products, eggs, potatoes, animal products, fruits and vegetables, tobacco, etc.

Should you, through taxation, put agricultural cooperatives in an untenable position, you might very well wonder what would become of our market faced with international competition. To tax our cooperatives would be to sabotage our agricultural economy. The small gain in taxation would be lost over a hundred times through decreasing markets. Because you must not forget that we shall always have to meet foreign competition which will not discard cooperative methods to please those who are asking for the kind of taxation now under consideration.

It is perfectly obvious that as soon as cooperatives are taxed the government will have to be prepared to vote them subsidies to enable them to meet foreign competition in order to save our own markets.

With the above mentioned cooperatives are connected one or several purchasing services of raw material or implements of production: concentrates, grain and seeds, lime, chemical fertilizers, plowing machinery, etc. Those services have the great merit, through the pooling of orders, to make up a volume likely to interest manufacturers at a favourable price and to lower transportation and marketing costs. The dislocation of cooperatives would entail more costly methods with waste of energy, time and money from which only individual profiteers could benefit.

In certain quarters, the views expressed herein are accepted in so far as cooperatives are content to deal with their own members, but not when they do business with outsiders. Such an objection is wrong in view of the responsibilities of

cooperatives and the consequences of their trade with non-members. It must not be overlooked that our agricultural cooperatives are developed through education and are constituted in public service.

From their own nature and force of circumstance, our cooperatives would be reprehensible if they refused to serve non-members. Can a butter or cheese cooperative, especially if it is the only one in the parish, refuse to accept milk or cream from non-members and so oblige them to increase their distribution costs or go out of business? No need to demonstrate this point.

However, there is another aspect. Cooperation is a matter of education and conviction with cooperators. Doing business with outsiders is precisely an efficient means of education. Before risking his money, the average farmer wants to find out how the cooperative works and give it a trial. After a period of apprenticeship as affiliated member, he generally becomes a full member. Here again the cooperative is doing educational work and plays the part of public school. Should then the educational work of cooperatives be taxed?

Let us note by the way that the refund portion of affiliated members is most frequently applied towards the share contribution of the future member. In many cases it is the only way an affiliated member can acquire full membership. Those who have had anything to do with fishermen's cooperatives, for instance, are aware to what extent this is true.

It is not necessary to demonstrate more fully the excellence of the cooperative method or emphasize further the indispensable services our agricultural economy derives from it. But there is a point of their structure which should urgently be stressed, under the circumstances, before this commission.

Cooperators are recruited to a great extent among the

least favoured class of citizens. The cooperatives they organize, unfortunately, reflect the financial status of the members. The lack of financial means is the stumbling-block of the cooperatives that survive and the tombstone of those which go under. Our cooperatives, with a few exceptions, are small enterprises engaged in a daily struggle against distressing financial difficulties. Whenever they succeed in consolidating their financial position, it is due to repeated sacrifices on the part of their members. Very often they achieve success only with the help of government grants.

Should taxation increase further their financial difficulties, a great number would be obliged to shut down, to the great disadvantage of our agriculture and national economy.

If certain quarters are trying to credit cooperatives with the merit of contributing their part in the upbuilding of our social system, they are not entirely wrong. And let it be known that they have not waited until they were compelled to cooperate in that field. But there are various ways of contributing one's share to the common weal. Some people and some institutions whose only *raison d'être* is profits and individual gain will never serve the common weal to any extent except through the payment of taxes. For others, among which are the cooperatives, aiming exclusively at the public weal, their share is in the unremunerated service they give in the form of education, or economic, moral and social restoration.

In their own phase of action, cooperatives have done their splendid share which no private or capital stock organization has ever achieved. Let them carry on a work for which they are made. They will not fail in their task. On the other hand, let us ask them by taxation to make an effort which is beyond their might, and they will break down in

their own and principal role while they will deceive those who might depend upon them with regard to taxation.

From the standpoint of competition, it is worth noting that among the advantages of the cooperatives, the chairman of the special commission appointed by the chamber of commerce of the district of Montreal, to study the cooperative movement in the province of Quebec, states that: "The cooperative does not interfere with independent business. Experience shows that in all countries where the cooperative developed, independent business has continued to increase. The cooperative has undoubtedly brought about a new balance of economic powers. Individuals had to give up their own business, but they have started other ones and assumed new economic functions. This competition of the cooperative would not be more prejudicial than that entered into by a newcomer in the same type of business."

This observation founded on facts is a logical consequence of two cooperative principles: the cooperative is a free enterprise as to its members; the cooperative does not indulge in price competition, but does business on the basis of market prices.

At this point, it would be interesting to see the shady side of the matter at issue, to point out the concordance, suspicious at all events, by reason of which the case of cooperatives is investigated simultaneously in Canada and United States, to show who prepared this case sub rosa, and for what purpose. I hope that this aspect will not be passed over in silence before the Royal Commission.

Be the investigators of the inquiry into cooperatives ever so powerful, and be their objective ever so obvious, we believe that it is not the appropriate time to deal an unfair blow to our cooperatives. When everywhere you hear more and more about "social security", and when more and more daring social

measures are placed on the political programme of the state, why sabotage eminently deserving private social security institutions already established in the cooperatives? Did not the caisses populaires Desjardins, the agricultural cooperatives, the fishermen cooperatives, the consumer cooperatives perform social security work long beforehand?

The most apparent result sought by those seeking the taxation of cooperatives, is to ruin these institutions for their own profits, to the prejudice of the community. Should their views prevail, they will not achieve their purpose without adding again to the government's long list under the heading of "social security" and without still further burdening the national revenue on that account.

To sum up, we submit that:

1. Cooperatives do not acknowledge profit, and consequently their profits cannot be taxed;
2. Taxing cooperatives amounts to taxing the most effective means of education, economic, moral and social restoration of the small wage earner when more fortunate people attend state-aided superior schools;
3. To tax the reserve funds of our cooperatives is an indirect way of doubling the members' taxes or levying taxes on them, when they are exempted under the general act as not having sufficient incomes to justify the tax; to tax the reserve funds of the cooperatives is to tax their only means of continuity and frustrate their development;
4. To tax cooperatives is to restrict agricultural production at the source and sabotage our domestic and international markets;
5. In levying taxes on cooperatives the state will have to make up its mind to vote them subsidies in order to cope with the situation resulting from competition of foreign producers

strongly organized in cooperatives;

6. The fact that they deal with non-members cannot be set forth as a reason to tax cooperatives. They regard that practice as necessary to their education and as the performance of a public service;

7. The majority of agricultural cooperatives cannot assume any responsibility for taxes at the risk of finding themselves obliged to close their doors;

8. Cooperatives contribute their share to public burdens in the form of educational work and not in the form of taxes;

9. Cooperatives do not interfere with independent business, and it is unnecessary to protect the latter by imposing taxes on cooperatives;

10. To-day as in the past, cooperatives are performing "social security" work, and must be maintained in their present status, as essential auxiliaries in that regard

By MR. BROSSARD: There are not any facts put forward in the memorandum, this is argumentation. I do not think I have any questions to ask. Possibly one or two.

Q. Would it be fair to presume or claim that your main argument is that taxing cooperatives, as stated by you in paragraph 7, would mean closing their doors? A. For a great number of them I think it would be true.

Q. Do you make any distinction between the different classes of cooperatives? A. Yes, if you take a cooperative established many years ago and which had time to accumulate reserves, I think it could bear the brunt; but out of the 500 cooperatives I find 131 of them having reserves ranging from zero to \$1,000 and, on the average, reserves do not exceed \$350. With such reserves, I do not see how they could keep on expanding.

Q. You would distinguish between a cooperative which had succeeded in accumulating reserves and the one which had not?

A. As a matter of fact I would make a distinction.

Q. In the first instance you would maintain that a cooperative would not be doomed to failure and ruin by taxation while it would be in the second instance? A. I do not say that others could bear the brunt of taxation, but I do maintain that some of them could not stand it.

Q. How is it that cooperatives could not bear the brunt of taxation as well as private enterprises? A. Because their reserves are too limited.

Q. It is a question of reserves, and how would you determine that a cooperative could bear the brunt of taxation?

A. It is a problem I could not solve.

Q. Have you any suggestions? A. To avoid injuring cooperatives, I believe their present status should remain undisturbed.

Q. Whatever their surplus may be? A. Yes. I wish to emphasize that cooperatives have no revenues as understood in accounting, no surplus, no profits as understood in accounting. As reserves are built up by what cooperation calls overpayments, the same applies to patronage dividends which are not profits, and I will take the liberty in that respect to refer perhaps to an argument submitted before the commission; the example given in its brief by the Superior Council of Cooperation which drew a parallel between two farmers, each with an income of \$200; one is a cooperator and the other is not. In the cooperator's income there is an amount of \$50 derived from his cooperative's patronage dividends. But such patronage dividend is not an income, and if we analyze the cooperative's operation we will realize that it is not an income. Here are the facts: the cooperator goes to his cooperative and deals with it. The final price of goods or services is not fixed at the time of the operation; it is understood

that the cooperative deals at market price, at prevailing price, but it is understood that it is not the real price and the real price is fixed at the end of the fiscal year. It is then that the cooperator is called upon to pay the real price of goods or service to his cooperative and the overpayment is returned to him in the form of patronage dividends, exactly as in the following case: I go to the store, I buy a pair of stockings for \$1.90, I give a \$2 bill. The clerk completes the operation, hands me the bill and 10 cents change. Under the cooperative system, it is not as simple as that; we have to take into account the "time" factor. For my goods which cost \$1.90, I give a \$2 bill to the manager; he does not hand me back my change before the end of the fiscal year. I emphasize that point to show that in the operation made by the cooperator there is no profit either in the patronage dividend or in the reserve, because reserves are withheld.

Q. Whatever the amount of patronage dividends or reserves, would you not consider the amount left by the cooperator as reserves as an investment on his part? A. Obviously, it is an investment.

Q. Is that not what follows from your allegation in paragraph (3) to the effect that "to tax those funds would be to tax their sole means of continuity and frustrate their development"? A. Certainly.

Q. It is because reserves may enable a cooperative to expand, to enlarge, that you maintain that taxing it would be ruining it? A. Yes.

Q. Even if it has succeeded, through tax exemptions for many years, in building up sufficient reserves? A. Financially speaking, our farmers are to some extent small fry; they do not have enough money to make investments with an eye to dividends and what they give to cooperatives does not amount

to much.

Q. When you refer to a small cooperative which did not have time to accumulate reserves, it would be advisable to exempt it from taxation, but in the case of a large cooperative which had time to accumulate reserves, it should not be exempted from taxation? A. I maintain that in the case of a cooperative, if it pays taxes it would not have enough left to meet the producers' needs.

Q. The same applies to private enterprise; if it pays taxes, it cannot increase its services? A. There is a clear-cut distinction to be made in regard to private enterprise. One must consider the incidence of taxation. I believe there is not a single private joint stock enterprise which could bear the brunt if, in the end, after paying taxes it does not realize a profit. It is undeniable. it cannot carry on, it is compelled to fold up. Apparently, it is the joint stock company or the private enterprise which pays taxes because it is Mr. So and So who makes a cheque to pay his income tax, but the incidence of real taxation falls on the consumer who, through force of circumstances, is obliged to deal with them.

And so, this is being put forward in support of the contention that the joint stock companies and the individuals doing business privately are in an unfair position with respect to taxation. Analysis shows that it is neither the individual nor the company but the consumer who pays the taxes, just as the tenant is the one who finally pays the taxes.

Q. Few private enterprises could maintain themselves, if they did not make any profits? A. No.

Q. I compare that statement with the one you made a while ago, to the effect that few cooperatives could maintain themselves unless they were allowed to accumulate reserves? A. Yes.

Q. Is there a certain analogy between the conception of

profits, permitting private enterprise to expand, and that of the reserves of cooperatives for like purposes? A. No. If I understand the question aright, the reserves of joint stock companies are set up with a view to making capital yield profits, while reserve funds of cooperatives are not created with a view to making capital yield profits, but solely with a view to increasing or improving the services and the quality of commodities. You had a striking example of this in the "Couvoir coopératif de St-Anselme". It was proved that these people were unable to cope with the demands of all who wanted to have eggs hatched. Why? Because they lacked space to take care of the needs of farmers; they were unable to expand.

Q. And if they could have expanded, they could have increased their profits? A. They could have increased the savings of the users.

Q. And if a private enterprise had installed itself alongside these people, it could have given the service? A. Yes, it could have given the service and increased its profits.

MR. LACROIX: On page 17 of the brief there is an error which I have made; it is at the end of the paragraph, where I say: "Finally it is stipulated that the balance is divided between the members in proportion of the amount of their shares." The word "shares" should be replaced by the word "purchases." These references are taken from a pamphlet which I have shown to Mr. Parker. It is published at Antigonish, Nouvelle Ecosse. I could not say who wrote it. It is marked "King's Printer". Perhaps Mr. Parker can explain it.

MR. PARKER: It bears on the first page the word "Antigonish," and it bears on the last page the words "J.L. Patenaude, King's Printer," date, 1938. It seems to be a sort of collection of literature gathered together by somebody whose identity apparently is unknown, and through some arrangement with the Antigonish people the King's Printer does some printing for educational work. I have consulted some gentlemen from Antigonish and they are unable to tell me who the writer is or how it came to be published.

THE CHAIRMAN: Perhaps we can find out in Nova Scotia.

MR. PARKER: Maybe we can find out there.

MR. BROSSARD: Mr. Hudon has a statement to make.

MR. HUDON: Just one word. At page 13, line 4 the brief of Mr. LaCroix reads as follows: "These loans represented \$7,534,293, with a profit accruing to these Caisses Populaires of \$845,460." It is true but incomplete. These were new loans made in 1941 to which you must add the loans of the previous years which were not repaid. The outstanding loans during 1941 were \$17,763,746, which shows that the rate of interest is a little below five

per cent as an average. The other figures would lead to the conclusion that the rate was over twelve per cent, or around twelve per cent. The figures given, therefore, are incomplete because they do not show the outstanding loans for 1941 but just the loans granted in 1941.

Another small point, one which Mr. Vaillancourt asked me to raise. Referring to page 18, second paragraph, the brief says: "The shares of this society, also organized on the same basis as a joint stock company, cost \$10 in 1924, and in 1926 the price of the shares rose to \$30." The society is not a joint stock company. The shares were one share per man, of \$10, and in 1926 the directors required all new members to subscribe three shares. The way this reads now, that the price of the shares rose to \$30, is not precisely what took place.

Just one more word, if you will allow me. The \$57,000 grant to the Federation (brief, page 9) does not in any way, shape or form go to the members. It was stated yesterday clearly that these grants from the province are just for inspection purposes.

THE CHAIRMAN: They belong to the cooperative as a legal entity, then?

MR. HUDON: To the Federation.

THE CHAIRMAN: That is the corporation.

MR. HUDON: Yes, to the Federation des Caisses Populaires. But these amounts are not distributed in any way, shape or form to members of caisses or members of unions.

THE CHAIRMAN: So that there is a separate legal entity in the corporation?

MR. HUDON: Undoubtedly.

MR. LACROIX: With regard to the figures given on page 13, to which Mr. Hudon has just referred, I would not like the Commission to be under the impression that we did not give bona fide the information we had. The figures were taken from a publication on the Caisses Populaires which was utilized for the survey of the Board of Trade in 1944. Under the column 1941 we found those figures. They may not be correct, but they are exactly the figures from their own book. As to the affirmation we make concerning the shares, I have referred the Commission to this publication, la revue Ensemble for April 1941, page 18.

MR. HUDON: That is quite all right. My learned friend was mistaken, but I never thought he did it on purpose. I submit also that la revue Ensemble or the Financial Post are no authorities.

THE CHAIRMAN: It only remains now for me to thank the members of the Bar of Quebec and the distinguished people who have come before us for their cooperation in the work of the Commission.

Thereupon the Commission adjourned to meet in Moncton, New Brunswick, on Friday, March 2, 1945.



Canada Co-operative, Royal Commission

ROYAL COMMISSION
ON
CO-OPERATIVES

1945

PROCEEDINGS
(OFFICIAL REPORT)

VOLUME No. XI

PLACE Moncton, N. B.

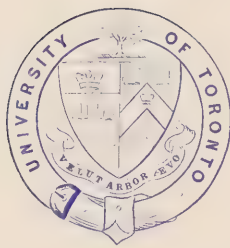
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The Commission appointed to inquire into the present position of co-operatives in the matter of income and excess profits tax, organization and business methods and operations, and the comparative position of persons engaged in business directly competitive therewith, met in Moncton, New Brunswick, March 1, 2, 3, 1945.

PRESENT:

The Hon. Mr. Justice ERROLL M. McDOUGALL, Chairman

B. N. ARNISON)	
G. A. ELLIOTT)	
J. M. NADEAU)	Commissioners
J. J. VAUGHAN)	

Eugene T. Parker, K. C.	Counsel
Major H. D. Woods)	Associate
J. A. Chapdelaine)	Registrars
Colonel G. W. Ross	Executive Secretary

APPEARANCES:

W. B. Francis	Group of Co-operative Associations
R. H. Milliken, K. C.	Saskatchewan Co-operatives

.....

Moncton, N. B.
March 1, 1945.

The Commission met at 2.30 p.m., Mr. Justice McDougall presiding.

MR. PARKER: In accordance with the advance notice given the public some time ago, all those who had information which they wished to place before the Commission were invited to submit briefs. A number have done so and a list has been prepared showing those associations or bodies wishing to be heard. I understand that since this list has been compiled one of the six has intimated that it will not have a representative here. I refer to the Insurance Agents of New Brunswick. They may appear later. That leaves five cases to be heard, the first of which is the Co-operative Union of Prince Edward Island.

THE CHAIRMAN: It was originally intended that the sittings here would not begin until tomorrow morning but, as it appeared that the time would scarcely be sufficient to do justice to all the briefs that have been submitted, inquiries were made yesterday to see whether it would be possible for one or more to be heard this afternoon. Some of those present have graciously put themselves out, anticipating their arrival here, and I understand that the Co-operative Union of Prince Edward Island is ready to go on immediately.

MR. FRANCIS: I may say that I am representing the Co-operative Union of Prince Edward Island, the Canadian Livestock Co-operative, Maritimes, the Madawaska Association and the Sussex Cheese and Butter Company. We are ready to go on with the case for the Co-operative Union of Prince Edward Island and, subject to the direction of the Commission, we propose to have the Secretary of the

Union present the brief, then have supplementary evidence from the President who is thoroughly familiar with the development that has taken place in one area of Prince Edward Island. That will complete the Prince Edward Island case. We have prepared a map showing the general co-operative development. It is mainly for the use of the Commission and it can be put in some convenient place so that it may be referred to by the witnesses.

J. T. CROTEAU

Secretary-Treasurer
The Co-operative Union
of Prince Edward Island,
having been duly sworn,
testified as follows

BY MR. FRANCIS:

Q. You are Secretary-Treasurer of the Prince Edward Island Co-operation Union? A. Yes.

Q. I understand that you are Carnegie Professor of Economics and Sociology at St. Dunstan's University?
A. Yes.

Q. And also at Prince of Wales College? A. Yes.

Q. And you have a Ph.D. from Clark University?
A. Yes.

Q. I believe you became interested in credit unions while working on your doctor's thesis? A. Yes.

Q. And you have been interested in credit unions for some years? A. Yes.

Q. I understand that your interest was revived when you came to Prince Edward Island and found conditions as you did? A. Yes.

Q. In the 30's? A. In 1933.

Q. At that time there was some credit union development in Nova Scotia and you and your associates heard of that development and gathered some information from Nova

Scotia? A. Yes.

Q. Who prepared the brief which you are about to read?

A. The Co-operative Union of Prince Edward Island.

Q. Was it prepared by the board of directors?

A. Yes.

Q. It has been approved by the board of directors?

A. Yes, at a meeting on January 10, and revised by letters subsequently.

Q. You have authority from the board to present the brief? A. Yes.

Q. You are authorized to appear on behalf of the Co-operative Union of Prince Edward Island to present the brief? A. Yes.

Q. What does your Union consist of? A. It is a Union of societies incorporated under the Co-operative Societies Act, plus the Credit Union League.

Q. Will you read the brief? A. The brief reads:

"In Prince Edward Island the cooperative movement is more than a business system. It is an educational program, a group effort designed to build individual and community responsibility. The progress that it has made has been due to the unselfish effort of hundreds of voluntary workers, motivated by a spirit of service to fellow man. And while that progress has been small measured in monetary terms, to the members of the Island cooperatives it has given confidence and hope in the future.

"In January 1944 representatives of the cooperative associations incorporated under the Prince Edward Island Co-operative Associations Act met to form a union of bona fide cooperative associations in the province of Prince Edward Island. It was decided to admit as members only

societies incorporated under the Co-operative Associations Act together with the Prince Edward Island Credit Union League. This limitation of membership was made in order to insure, as far as possible, that only those societies which are operating under pure cooperative principles be recognized as composing the cooperative movement in Prince Edward Island. It is this group, consisting at the present time of fifteen cooperative associations, plus the Prince Edward Island Credit Union League, which begs to make this submission to the Royal Commission on Co-operatives.

"A number of other groups in the province operate as cooperatives or quasi-cooperatives. There are informal buying groups, farmers' institutes, and even some stores which operate along cooperative lines. Some of these in the course of time will become incorporated. In the meantime, for one reason or another--lack of proper auditing control, faulty bookkeeping, lack of capital, and similar reasons--they do not qualify for incorporation and are not represented by the Co-operative Union.

"There are also certain marketing groups which are incorporated under special acts and which do in the aggregate a large amount of business. These are not represented by the Co-operative Union.

"While the Prince Edward Island Credit Union League is a member of the Co-operative Union, it has decided not to submit a special brief, but to refer the Commission to the brief submitted by the credit unions of Quebec. It is the opinion of the Prince Edward Island Credit Union League that in Quebec are found conditions typical of credit unions everywhere in Canada: local credit unions, regional federations, or leagues, and a

federation of leagues. Therefore it is unnecessary to repeat the arguments presented by the Quebec credit unions. Therefore the Commission is respectfully referred to the brief presented by the credit unions of Quebec, as well as to the pertinent briefs presented by the Regina Credit Union League and the Saskatchewan Co-operative Credit Society, Limited.

"History of the Cooperative Movement
in Prince Edward Island"

"In pioneer countries a strong cooperative spirit is necessary for survival. This was true of the early days of Prince Edward Island when neighbour helped neighbour to build homes and to harvest crops. Indeed, in rural Prince Edward Island this spirit of mutual aid has never been lost, and informal neighborhood cooperation is common even at the present day.

"The beginnings of economic cooperation are found in the development of the dairy industry which began in the 1890's in Prince Edward Island. Under energetic leadership a large number of creameries and cheese factories were built during the last decade of the 19th century and the first decade of the 20th century. These factories were cooperative in spirit: neighbours and patrons subscribed the capital and all shared in the benefits. Patronage dividends were common; the rule of one man, one vote was observed, even though it was not always provided for in the by-laws. Unfortunately, under the legal requirements of that time these factories were incorporated as joint stock companies. In the course of the years shareholders died or moved away and the remaining shares tended to gravitate into a few hands. At the present time almost all of these dairy companies are operated as

ordinary joint stock companies. In a few the original ownership is lost completely and they operate as cooperatives, distribute patronage dividends and have producer control. No one knows who owns them, however.

"This movement of the 1890's and 1900's, cooperative in spirit, built a strong dairy industry in the province. Apart from the direct financial gain, it had the effect of educating the producers to improve their herds and to produce a high grade product.

"This educational influence of cooperatives in establishing and raising standards of quality in production can be shown time and again in the cooperative history of Prince Edward Island.

"Possibly the most outstanding example of the influence of a cooperative in educating producers and in building an industry is found in the old Prince Edward Island Co-operative Egg and Poultry Society. Previous to 1913 Island eggs had an unenviable reputation. Eggs were collected by peddlers or at country stores and no care was given to handling. As a result a low quality product reached the markets. The price for such a product was low. Because the revenue from poultry was small, little attention was given to the farm flock. In 1913, T. A. Benson of the Dominion Department of Agriculture began active work in the organization of egg circles. Eleven circles were organized that first year and in the next few years the number increased until the Island was virtually covered. It is not necessary to take the space to go into the vicissitudes of this organization, the competition it met from the country merchant, the other difficulties it encountered. The point is that through the work of this cooperative, egg grades were established, quality of

production was greatly improved and real industry was developed. The Egg and Poultry Co-operative gave excellent service for over twenty-five years. During the depression of the 1930's, however, a number of factors combined to end the society. Friction developed among the directors, there were two changes of managers, the weakness of financing through collateral notes became apparent, and the changed policy of the Federal Department of Agriculture which now stressed small local grading stations made necessary a major adjustment of policy which the directors were reluctant to make. Instead, in 1939, they liquidated the business. Nevertheless, even after sacrificing its plant and equipment it was 100 per cent solvent. Mistakes were made in this society: its financial set-up was weak, its membership control was unwieldy. Nevertheless, it left as its legacy a vastly improved poultry industry and the tradition of grades and standards in production. In potato marketing, and later in hog marketing, the farmers of Prince Edward Island were among the first in Canada to adopt grades and policies of rigid inspection. The educational work of cooperatives has left its mark here.

"After the first world war there was a great wave of cooperative enthusiasm. The success of the egg and poultry cooperative, combined with dissatisfaction with marketing practices then prevailing, led to the organization of an ambitious plan for the marketing of all products of Island farms. This was the formation in Charlottetown of the Canadian Farm Products Limited, a joint stock company under dominion charter, which was intended eventually to be a super-cooperative covering all of the maritime provinces. While a joint stock

company, its by-laws provided for reserves and an educational fund and limited interest on capital and patronage rebates. Over 3,500 farmers joined this organization. Seven or eight other cooperative stores were formed in different parts of the Island. The enthusiasm was short lived, however. In less than two years Canadian Farm Products had failed. The other stores failed one by one. Inexperienced management, inadequate financing, possibly the postwar fall in prices and over-optimism seem to have been the causes of this cooperative disaster. Cooperation in Prince Edward Island suffered a blow from these failures. It took almost a generation before the cooperative movement regained confidence and status in the eyes of the people of Prince Edward Island.

"In the twenties two cooperatives developed, one for the marketing of potatoes the other for the marketing of livestock. Both organizations have had hectic and stormy careers. It is always difficult to analyse a contemporary development, but it seems that in these two organizations the cooperative approach has been subordinated, and that they follow pretty much the ordinary trade practices and policies of the day. They differ from both a private business and a cooperative in that no one seems to own them; nor is there any direct member-responsibility or participation in their financing. Member control is practically non-existent. They are mentioned here for completeness in the historical record.

"The first fishermen's cooperative of which there is record in Canada was formed in Tignish, Prince Edward Island, in 1924. (Canada Year Book, 1943-44, p.539). That same year the Island legislature passed an Act permitting the incorporation of fishermen's unions. Some

thirty unions in all received charters, but only half of that number really functioned at all successfully. The law as passed was loosely drawn, and in 1944 seven of the most successful fishermen's unions became incorporated under the general Co-operative Associations Act.

"Cooperation among fishermen has had spectacular results. Time after time the organization of a fishermen's union has been followed by a rise in the price of lobsters from two to as high as five cents a pound. Other fish has had corresponding increases in price.

"One of the most remarkable cases of the influence of cooperation as a factor in lifting a depressed community from the depths of poverty is found in the little fishing village of North Rustico. Of course cooperation was not the only factor. There was leadership of the highest order. But without the cooperative tools to focus this leadership and to insure that the people got everything which they produced, this community development would not have been possible.

"In North Rustico where 70 per cent of the children had a positive reaction to the tuberculin test, where 75 per cent of the families were on relief and where malnutrition and suffering were commonplace, a program of study beginning in 1936 led eventually to the formation of a credit union, a fishermen's union and a cooperative store. Today North Rustico, while not wealthy, is relatively prosperous. In addition to controlling their own credit, marketing and purchasing, the people of this community have built a modern five-department school, with the most modern equipment, including radio in each classroom, domestic science and manual training. This building also contains a community hall seating five hundred people

and having bowling alleys and recreational facilities in the basement. They have a garden project for fresh vegetables and a dozen or more other programs for community development.

"Cooperation in Prince Edward Island has been effective in fairly prosperous as well as in depressed communities. Three other cases--those of Morell, Wellington and Tignish--should be described in detail to show how, through the development of cooperatives, a sound and healthy community life has been fostered. Considerations of space will prevent the inclusion of this case material, valuable as it is in demonstrating the effect of cooperation in local community building in Prince Edward Island. A special witness qualified to deal with the case of Morell will be called.

"The cooperative history of Prince Edward Island shows that cooperatives definitely had a beneficial effect in educating the producer to turn out a product of improved quality. It built up the dairy and the poultry industries. Cooperatives also had a marked effect in improving the quality of potatoes and hogs. Consumer cooperation in its inception had rather unhappy consequences. Part of the trouble undoubtedly was due to an inadequate legal setup. Forcing them to incorporate as joint stock companies, the law did not hold the early cooperatives to true cooperative practices. The financial basis in particular was faulty. Capital was usually inadequate, reserves were forgotten in good times, proper bookkeeping was never insisted upon and member control was remote. This is not to say that you can legislate good cooperatives into being, or keep them in operation. But it does point to the fact that unless there is suitable legislation and

supervision, a cooperative has little chance of permanent success.

"The Co-operative Associations Act of 1938

"An educational campaign set the stage for the Co-operative Associations Act. In Prince Edward Island a program of adult education was carried on under the leadership of a non-partisan, non-sectarian adult education league, financed and encouraged by the government. Its program was patterned after that of the movement which got its leadership from Antigonish, Nova Scotia. The fundamentals of this program are familiar: adult study clubs formed to study programs of community betterment and leading to the formation of credit unions, cooperatives and other projects designed to improve economic conditions in local communities. The adult education league was organized in 1936. A credit union law was passed the same year. Within two years over three hundred study clubs were functioning in the province. The number decreased, however, after the beginning of the war. A number of credit unions were organized in 1936 and 1937 and the need was seen of having a sound co-operative law if this movement was to continue its advance. The legislature was approached and in 1938 the Co-operative Associations Act was passed.

"This Act was modelled after what seemed to be the best acts in Canada. The Saskatchewan Act was drawn upon heavily. The Co-operative Union of Canada was consulted and United States experience was utilized. It was the intention of the framers to incorporate in the Act, and in the standard by-laws approved by the government, everything that a century of experience had shown essential to the successful operation of cooperatives.

The Rochdale principles were insisted upon. For example, Article III of the by-laws provides that business shall be carried on according to the following principles:

- (1) One vote for each member only, and no proxy voting;
- (2) Interest paid on capital at not more than five per cent per annum;
- (3) The difference between the net cost price and the net distributing price after paying overhead cost, and setting aside reserves shall be returned to members as savings returns in proportion to their patronage, or used collectively for social purposes, if members so desire;
- (4) Unlimited membership;
- (5) Political, religious and social neutrality;
- (6) Business on a cash basis.

"Proper auditing, accounting and bonding were required and a government auditor appointed to see to it that the provisions of the law were followed.

"A copy of the Act and the Standard By-Laws are being available for examination, so that an extended analysis of the Act will not be made here. The question of the disposal of the earnings of an association incorporated under the Act is pertinent to the inquiry, however, and this is covered in section 30 of the Act. A quotation from subsections (1) and (2) covers this point; the other subsections of section 30 provide for exceptional circumstances which might arise.

- (1) The directors shall apportion the surplus arising from the business of the association as follows:

- (a) by setting aside not less than ten per cent of the net surplus for a reserve fund until

an amount has accumulated in such fund equal to at least thirty per cent of the paid-up capital stock;

(b) By setting aside not exceeding five per cent of the net surplus for cooperative education or welfare fund;

(c) by paying interest on the paid-up capital stock at a rate not exceeding five per cent per annum.

'(2) The remainder of the surplus shall be divided among the patrons and shareholders in proportion to the volume of business which they have done with the association.'

"The Act is not foolproof; no one pretends that it is. It is still possible to have cooperative failures as long as we have imperfect human beings. In a cooperative where the members exercise a reasonable amount of care, and with the safeguards afforded by the legislation, there should be every prospect of success. Moreover, the supervisor of cooperatives will not recommend that a charter be granted unless sufficient capital has been subscribed to carry on the type of business proposed.

"The present cooperative development in Prince Edward Island is relatively recent. The Credit Union was the first type to develop, growing out of an intensive study club program. And while the present cooperative development is still relatively small, it has had its greatest growth since 1943.

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"TABLE I: Number of Societies, Members and Per Cent of the Total Population, Prince Edward Island Co-operative Associations and Credit Unions, 1938-1944.(1)

Year	Co-operatives		Credit Unions		Total member-ship	Per cent of total population
	Number	Members	Number	Members		
1938	--	---	38	3,577	3,577	3.8
1939	4	325	44	4,731	5,056	5.4
1940	6	700	46	5,313	6,013	6.4
1941	7	848	45	5,539	6,387	6.8
1942	7	1,242	45	5,580	6,822	7.2
1943	8	1,924	47	6,116	8,058	8.6
1944	--	---	50	6,754	---	---

(1) Sources: Reports of the P. E. I. Department of Agriculture, 1939-1943
Reports of the P.E.I. Inspector of Credit Unions, 1938-1944.

"Table I shows the total growth in societies and membership in the cooperatives and credit unions of Prince Edward Island. According to Table I, the number of co-operatives grew from four in 1939 to eight in 1943. Credit unions rose from thirty-eight in 1938 to fifty in 1944. Membership in cooperative societies increased from 325 in their first year of operation to 1,942 in the last year for which we have statistics. Credit union membership rose from 3,577 in 1938 to 6,754 in 1944. The last column showing the percentage of total population having membership in cooperatives, shows a rise from 3.8 per cent in 1938 to 8.6 per cent in 1943. While there is some overlapping in the total figures, this percentage understates rather than overstates the percentage of the

population belonging to cooperatives; many of these memberships are family memberships rather than individual memberships. Moreover, taking the total population of Prince Edward Island, including children as well as old people, more than one in twelve of the entire population belong to cooperatives. If we consider the qualifications of family membership alone, it would probably be more true to say that one in every seven or eight people in Prince Edward Island belongs to a cooperative.

"TABLE II: Growth in Total Assets, Prince Edward Island Co-operative Associations and Credit Unions, 1938-1944 (1)

Year	Credit Unions	Co-operatives
1938	\$ 37,392	-----
1939	66,177	\$ 20,488
1940	87,497	44,237
1941	99,646	62,273
1942	126,664	55,640
1943	207,081	113,664
1944	334,704	-----

(1) Sources: Reports of the P. E. I. Department of Agriculture, 1939-1943;

Reports of the P. E. I. Inspector of Credit Unions, 1938-1944.

"The total assets of Prince Edward Island cooperatives and credit unions having membership in the Co-operative Union, are set forth in Table II. In this table we can see a growth in credit union assets from \$37,000 in 1938 to \$334,000 in 1944. The total assets of these cooperative associations rose from 20,000 in 1939 to \$113,600 in 1943. From these figures we can see that while growth was retarded at the beginning of the war, it has been

relatively rapid in the past two years.

"TABLE III: Prince Edward Island Co-operative Associations Total Reserves, Capital and Earnings, 1939-1943 (1)

<u>Year</u>	<u>Reserves</u>	<u>Capital</u>	<u>Earnings</u>
1939	\$ 209	\$ 7,908	----
1940	1,949	21,446	\$ 1,163
1941	6,462	30,492	7,819
1942	13,460	15,591	9,794
1943	29,683	48,337	19,698

(1) Sources: Reports of the P. E. I. Department of Agriculture, 1939-1943.

"Table III shows the total reserves, capital and earnings of Prince Edward Island Co-operative associations from 1939 to 1943. Capital rose from around \$8,000 in 1939 to \$48,000 in 1943. Reserves increased from \$209 in 1939 to \$29,683 in 1943. The decline in capital in 1942 was due to the failure of one cooperative society.

"Earnings rose at a relatively rapid rate from a little over \$1,000 in 1940 to almost \$20,000 in 1943. These figures would tend to show that the earnings of the cooperative societies are being reinvested in the business and that financing is taking place partly through the subscription of new capital and partly through the accumulation of reserves.

"Exhibit A, placed as an appendix to this brief, is a consolidated balance sheet and a consolidated profit and loss statement of the seven cooperative associations reporting for the fiscal year which ended on January 31, 1944.

"Exhibit B is a consolidated balance sheet and a consolidated profit and loss statement of the fifty

Prince Edward Island credit unions reporting on September 30, 1944. It will not be necessary to review these figures in detail in this brief.

"Exhibit C is a list of the cooperative associations incorporated on January 31, 1944, with the location, the number of members and the capital of each. They are classified as producer or consumer, but there is not a tight distinction, as the consumer societies market their members' goods and the producer societies sell certain goods to their members.

"The Provincial Income Tax Act

"Little need be said of the Provincial Income Tax Act or the former policy of provincial tax officials in regard to the taxation of cooperatives. Cooperatives have never paid income tax to the provincial government. In fact, when the Income Tax Act was revised in 1938, the Dominion Act was followed almost to the letter. Section 4, clause (p) of the Prince Edward Island Income Tax Act follows section 4, clause (p) of the Dominion Act, almost word for word; except that where the Dominion Act says "members or shareholders", the Provincial Act says "members" only. During the year preceding the war the Dominion Income Tax Department collected the Provincial income tax. Cooperatives were not taxed under this arrangement.

"Policy of the Prince Edward Island Division
of the Income Tax Department in regard to
the Taxation of Cooperatives

"Officials of the Prince Edward Island division of the Income Tax Department were interviewed in regard to their policy of taxing cooperatives. They stated that in the past cooperatives had never been taxed if they

had not done more than 20 per cent of their business with non-members. As far as could be determined, no business incorporated under the Co-operative Associations Act, had ever paid any income tax in Prince Edward Island. However, it is understood that they were investigating the 1943 income of a number of cooperatives. They stated that they plan to tax them on all reserves, except permitted depreciation deductions. Even if the provincial law requires certain reserves, it is the opinion of these officials that such reserves are taxable. Possibly also patronage dividends will be subject to income taxation. They also say that all stores, not patronised principally by primary producers, will be subject to income tax, according to their interpretation of section 4 (p). According to their interpretation, if there is any processing by an organization, it is to be regarded as any ordinary business, and not as a cooperative.

"Credit unions they regarded as definitely exempt from income taxes. It would seem that their interpretations are based upon an income tax service, rather than any official departmental rulings. Undoubtedly, however, the future policy of this division will follow the findings of this Commission and the subsequent decisions of parliament.

"Conclusion

"At this stage of the Commission's inquiry it will not be necessary to go into any theoretical or ideological arguments in favour of the exemption of cooperatives from the payment of income taxes. Such arguments have been presented by the Co-operative Union of Canada and by responsible cooperative groups from coast to coast. The Co-operative Union of Prince Edward Island concurs

fully with these submissions. This brief has been historical and factual. It has endeavoured to inform the Commission about the facts of the cooperative movement in Prince Edward Island. Behind these dry facts live the hopes and aspirations of the common people of the Island, striving to secure through their humble efforts, a just, secure and equitable economic and social system.

"Respectfully submitted."

MR. FRANCIS: You might file the official reports, with the annual report of the Inspector of Credit Unions for Prince Edward Island. We have five copies available. There is a report of the Department of Agriculture, and we have the official report on cooperative development. In the brief reference was made to the Wellington Co-operative, the North Rustico district, and the Morell district. With regard to the Wellington Co-operative, a study was prepared by Doctor Croteau and Mr. J. G. Denis, who is supervisor of cooperatives and the inspector of credit unions. This is a joint study of the Wellington Co-operative, a very thorough one and one that is of great interest to the Commission. We would like to file that document. With regard to North Rustico, an interesting and rather comprehensive report on the development there has been published by the Adult Education League of Prince Edward Island and we would like to file copies of that to supplement the main brief. With regard to Morell, we propose to call a witness who is very familiar with the developments in that district in order that he may be available for questioning by the Commissioners and by others interested, in regard to any points in the rural communities.

BY MR. PARKER:

Q. Doctor, I take it that you had a large part in the preparation of this document you have just read?

A. Yes.

Q. A good deal of the phraseology is your own?

A. Yes.

Q. And the views expressed therein, in so far as they consist of argument rather than definite statements of fact, are your personal views, or are they the views of your directors? A. Well, they are mine and the directors'. We are all agreed.

Q. How many of the individual members who make up the fifteen member societies hold these views? Have you any knowledge of that? A. It is hard to answer a question like that.

Q. I do not expect you to be exact, but you are safe in saying that any considerable number of the members hold these views? A. I would say they are pretty generally held.

Q. You say that by reason of your general knowledge of the communities in the province of Prince Edward Island? A. Yes.

Q. Are you a native of Prince Edward Island?
A. No.

Q. Where are you from originally? A. Massachusetts.

Q. How long have you been a resident of Prince Edward Island? A. Twelve years.

Q. In the scholastic field? A. Yes.

Q. You have read the order in council under which this Commission is directed to investigate the subject matter? A. Yes.

Q. And you are aware it deals primarily with taxation? A. Yes.

Q. Will you tell me where I can find in the brief what your recommendations are, if any, on that point? Have you suggestions to make as to any changes in the present law or are you satisfied with the law as it exists?

A. Well --

Q. As a matter of fact, you do not make any recommendations? A. No. Generally we subscribe to the position taken by the Co-operative Union.

Q. What is that? A. The argument. As to suggestions, of course they will be taken up later.

Q. But do you know what the recommendations are, if any? How can you say you agree with the recommendations if you do not know what they are?

MR. FRANCIS: He agrees with the general submission made by Mr. Good, but the recommendations are being prepared.

BY MR. PARKER:

Q. Do you know what those are? A. Not personally.

Q. Are you in a position to speak personally or on behalf of the people you represent, or have you any suggestions to give to the Commission, on the question of taxation? A. Generally the point, I understand, is that it is a question of income tax, and the cooperative point of view is that they do not make any income and therefore there is nothing to tax. It is not a very subtle argument, but that is the contention.

Q. You say they do not make profits and therefore should not pay income tax. Is that a fair way of stating your views? A. Yes.

Q. You are familiar with section 4 (p) of the Income

Tax Act? A. Yes.

Q. Do you understand the position to be such that the cooperatives whom you represent could get along very well without resorting to section 4 (p) -- that is, that they do not require statutory exemption because, in fact, they make no profits; or do you rely on section 4 (p)?

A. As I understand it, taking that legal ground, 4 (p) was never necessary in the first place.

Q. Let us get this straight, whether this is only your own personal view? Are you of opinion that 4 (p) is quite unnecessary? A. Yes.

Q. And speaking in your capacity as secretary-treasurer, have you any objection to 4 (p) being repealed, since you rely on the position that cooperatives, from the very nature of their business, are not taxable?

A. As far as that goes, but it might lead into deep water.

Q. Well, sooner or later we all have to swim in deep water. Perhaps you do not want to pursue that further. I notice you have set out at considerable length what I might call the social or community benefits that flow to the community as a result of these enterprises. In fact, your brief is largely a summation of those benefits?

A. Yes.

Q. Let us assume for the sake of argument, though I do not formally admit it, that all you say is true. Let us admit all that you say. Would you take the position that because of all that, they should be treated more leniently in taxation than other people doing business in the community who do not carry on in that way? Would you make a distinction so far as taxation is concerned?

A. I suppose it is a question of justice first of all, that they should be treated equally from that point of

view, and then the question arises as to the common good, It might be done through taxation, it might be done through education as a social instrument, or in other ways.

THE CHAIRMAN: Is it your opinion that a good citizen should be taxed on a different basis from a bad citizen?

THE WITNESS: No.

BY MR. PARKER:

Q. It has been suggested, if I correctly interpret the argument placed before the Commission in one locality, that by reason of these good works, as I may call them, educational, uplifting and what not, recreation centres, schools and so on, even if a cooperative did make profits it should bear a lower tax than ordinary businesses who did not carry on similar good works. Do you agree with that suggestion? A. No. There should be equality of taxation, I would say.

Q. Are you prepared to vouch for all the facts alleged in the brief? A. Yes.

Q. There are one or two to which I wish to call your attention. Let us begin with the first page. You say: "It is an educational program, a group effort designed to build individual and community responsibility." That, I take it, is your definition of the primary purpose of cooperatives? A. Yes, but I do not know that it is the primary purpose.

Q. You say it is an educational program or a group effort designed to build individual and community responsibility? A. It is more than a business system. It is a business system plus.

Q. It is a business system plus these other things? A. Yes.

Q. I suggest to you that the primary purpose of the cooperative movement in any community, for example in Prince Edward Island of which you have knowledge, is that those who participate in it shall get more for the produce which they sell on the market or, if they wish to buy things, they may get them at a cheaper price than they otherwise would. I suggest that is the primary purpose. What do you say. A. I don't know if the distinction is important. Perhaps it is important.

Q. Was not that the primary purpose involved in the Rochdale principles? A. I do not know.

Q. Because of the conditions in which the pioneers found themselves? A. I doubt if you would get all this voluntary effort unless people saw something more than that in it.

Q. I am not suggesting that that is all there is in it, but I am suggesting that it was the original idea, the primary motive that launched the whole movement, and that all that I have chosen to describe as good works are out-growths; that is to say, they are incidental and secondary benefits that have naturally followed in the wake of that primary purpose? A. Well, they start with business.

Q. Do you agree with my suggestion or do you disagree? Am I right or am I wrong? A. I don't know. Perhaps if we had the same concept of primary purpose we might agree. As it is, perhaps we disagree.

Q. From your standpoint. But is that what you understand the primary purpose of the Rochdale principles to have been as the movement began in England? -- because you were not living in England in 1844. A. I do not know. The primary purpose of cooperatives as well as of other undertakings is, I presume, to look for a better

way of life, a better way of distributing goods to everyone. But that is only incidental to a lot of other things.

Q. But is not that true of other people than co-operatives? A. Perhaps it is.

Q. They are all seeking a better way of life. Isn't it true of business generally? A. Perhaps.

Q. We will let that go. Let us go on a bit. You say you looked over the field and took in fifteen societies you thought were qualified and you found a great many more so-called cooperatives who for one reason or another could not qualify. Tell me on what basis you decided that one was fit to qualify and another was not? A. The basis was whether they were incorporated under the Co-operative Societies Act.

Q. It was a question of the Act under which they got their charter? A. To qualify under the Co-operative Societies Act they have to have enough capital, for instance.

Q. You took as your measuring rod incorporation under the Act and admitted those who had become incorporated under the Prince Edward Island Co-operative Associations Act? A. Yes.

Q. Plus the credit union league? A. Yes.

Q. Did you examine into their financial structure and their method of doing business, the sources from which they got their receipts and to whom and in what manner they made their disbursements, to see if they were qualified? Did you examine into all that to test their qualifications? A. In Wellington we made a fairly exhaustive study.

Q. But the fifteen that you took in? A. We relied

on the fact that they satisfied the government requirements.

Q. You never examined into the affairs of each to see how they were living up to those requirements? A. No.

THE CHAIRMAN: Did your association follow up to see whether they adhered to the cooperative principles that you speak of?

THE WITNESS: We have what we regard as a very efficient supervisor and he examines them.

THE CHAIRMAN: How frequently?

THE WITNESS: Practically continuously.

THE CHAIRMAN: What would happen if you found one of your member associations departing from cooperative principles? Would you expel him?

THE WITNESS: If it were serious they would lose their charter and be expelled automatically, but we try to help them come back. It would be an educational question.

BY MR. PARKER:

Q. Would your union expel them from membership?

A. We would try to improve their association first of all.

Q. Have you examined into their operations to see if they are complying with your ideas of what a true cooperative is? A. Some of them.

Q. How many? A. Well, we have the annual report of course.

Q. Whose business in the union is it to examine the annual reports, to analyse them and understand them in order to find out if these people are living up to true cooperative methods of doing business? Is that your job? A. It has only been going about a year.

Q. In forming this union you found a lot of people

who according to your standards were not qualified to become members of the union? A. Yes.

Q. Can you give me one or two samples of those who were rejected, and state why you rejected them?

A. They were not rejected.

Q. They were not invited perhaps? A. That would be a better way of putting it.

Q. Why were they not invited? A. Because we adopted that clear-cut, simple criterion of incorporation.

THE CHAIRMAN: Was it because they sold more than 20 per cent outside the membership?

THE WITNESS: I don't think so.

THE CHAIRMAN: Was that the test you applied?

THE WITNESS: There is no way of finding out.

THE CHAIRMAN: I am bringing you back to section 4 (p)

THE WITNESS: They just deal with their members in small groups and I don't think that would enter into it.

BY MR. ARNISON:

Q. In deciding not to consider these organizations for membership, was one of your reasons the fact that under their charter of incorporation it was not altogether clear whether they were compelled by the provisions of the charter to comply with what you understood to be cooperative principles? It was difficult to find out whether they were complying with those principles? A. That is true. There is no inspection or control of these organizations at all.

Q. Would it be one of the objectives of your union to try to help these organizations gradually to get on what you would consider a more cooperative basis?

A. We hope to get them to incorporate under this Act.

BY MR. PARKER:

Q. That is part of your propaganda. Further down you speak of a number of informal buying groups, farmers' institutes and so on operating along cooperative lines. What are these various institutions that operate on cooperative lines and yet are not in your union? What is their status in the community? A. A small group of farmers may get together and buy a carload of feeds.

Q. Isn't that a true cooperative? A. Yes, but it is an ephemeral sort of thing. It is organized and then gone; there is no permanency about it.

Q. That is the type of thing you were speaking of?
A. Yes.

THE CHAIRMAN: Do you consider that incorporation is essential to a successful cooperative?

THE WITNESS: Incorporation under our Act.

THE CHAIRMAN: Thereby becoming a legal body apart from its members?

THE WITNESS: Not because of the legal question purely but because our Act holds them to the cooperative principles.

THE CHAIRMAN: Of course, you know the advantage you get from the incorporation?

THE WITNESS: Yes.

THE CHAIRMAN: What is the main advantage?

THE WITNESS: Limited liability.

BY MR. PARKER:

Q. You seem to know something about the law relating to the incorporation of these societies. Do you know of any law in the land that prohibits a group of men from carrying on a cooperative institution without becoming incorporated under the Act? Do you know of any such law?

You either do or you don't. A. There is no such law; but they are prohibited from using the word cooperative.

Q. But that does not prevent them from being in essence a cooperative business. It does not prevent them from carrying on a cooperative business? A. No.

THE CHAIRMAN: It makes it more difficult, that is all?

THE WITNESS: Yes.

BY MR. ELLIOTT:

Q. Referring to the first page, I am not clear whether you consider it necessary that an association should be incorporated before it can operate in accordance with true cooperative principles. A. Some of them start in an informal way and gradually work up. In fact, that is the incentive.

Q. Are those that are informally constituted operating, or may they be operating, in accordance with true cooperative principles as you understand them? A. Yes.

Q. So that although they are not incorporated it does not necessarily follow that they are not true cooperatives? Some of them are not well financed. Suppose an association is not well financed; does that mean that it is necessarily departing from cooperative principles? A. It prevents them from buying for cash, which is necessary.

Q. That is what you have in mind? A. Yes.

BY MR. PARKER:

Q. At the bottom of the page you say that there are certain marketing groups which are incorporated under special acts and which do in the aggregate a large amount of business, and you say that these are not represented by the Cooperative Union. What societies are you talking

about, cooperative societies or ordinary business concerns?

A. Cooperatives, I guess. They started as cooperatives.

Q. And why are they not in the Union, because they were not incorporated? A. Yes.

Q. Do you know whether they pay income taxes?

A. I doubt it very much, but I do not know.

Q. I wish to ask you a question in regard to the first paragraph on page two. You make a general statement about credit union leagues. Do you know whether the credit unions carry insurance? Do they have their loans insured or do they carry some species of life insurance?

A. Some do.

Q. Are you familiar with the details of that?

A. Yes.

Q. What two types of insurance do they carry on?

A. Sales insurance and loan protection.

Q. I mean the credit unions. If there is someone else who knows the details I will not put these questions to you. A. There is share insurance which roughly doubles the amount of shares put in the credit union up to the age of fifty-five and decreasing the amount after that, and there is loan protection insurance which insures the amount of the loan up to sixty-five.

Q. Who pays the premium on it? A. The credit union.

Q. Where does the credit union get the funds to pay the premium? A. From its revenues.

Q. And where does it get its revenues? A. From interest paid on loans and investments.

Q. I thought the primary purpose of the credit union was to receive deposits, some amount of share capital for the purpose of having money available to lend to needy

members? A. That is the primary purpose.

Q. But you carry these members' life insurance, not so much the loan account but insurance; I am talking about life insurance. How does that help the needy person who wants to borrow money on easy terms? A. It does not really, but it gives him a little more security.

Q. But it does not help such persons, when they are in need, to borrow money any easier than in any other shape or form? A. No.

Q. With what companies is this insurance placed?

A. With CUNA.

Q. Is that a cooperative body? A. The credit unions in the province are federated into a league and the various leagues are federated into the credit union international association and they own the CUNA society.

Q. Which is a foreign body? A. It is registered in Canada.

Q. With head office in the United States?

A. There is an office in Hamilton and one in Wisconsin.

BY MR. ARNASON:

Q. Would you say that the provision for share and deposit insurance tends to encourage members to increase their savings? A. Definitely, yes.

Q. Would you say further that this fact in itself may help members in their borrowings in view of the fact that there will be a large fund from which to borrow?

A. Yes. I suppose, looking at it that way, it would.

BY MR. PARKER:

Q. In addition to the loans which the credit unions make to members, do they make loans to anyone else?

A. No; that is forbidden by law.

Q. Do they make investments? A. Yes.

Q. In what? A. The bulk of the investments would be in government bonds, Victory bonds.

Q. Any loans on mortgage? A. Relatively few.

Q. The principle is recognized that they are free to invest moneys not needed for loaning to needy members? They loan to commercial enterprises and they buy bonds, private and government? A. I do not know of a case where private bonds have been bought.

Q. Have they invested in other than government bonds? A. A few have put a little money in the provincial treasury of Prince Edward Island, which accepts deposits. As a matter of fact the provincial government generally invests that in government bonds, so that it goes in Victory bonds anyway.

BY MR. VAUGHAN:

Q. What percentage of these funds is loaned back to members and what percentage is invested in other ways?

A. You will notice in exhibit B we have a balance sheet and out of a total of \$334,000 of assets loans to members amount to \$157,000.

BY MR. FARKER:

Q. That was the amount of loans outstanding at that date? A. Yes.

Q. And investments amount to \$126,000. So that the proportions are, loans to members \$157,000 and investments \$126,000? A. That is mostly Victory bonds.

Q. At the bottom of page two you give us a little historical story of what happened in the 1890's. You say: "These factories were cooperative in spirit." We are rather realistic here; we are not interested in what their spirit was but in the facts. Do you know how they were operated? Get down to brass tacks. How did they raise

share capital? What did they do with their receipts?

A. They sold stock largely to patrons and people in the area.

Q. Did you examine their by-laws, charters and financial statements so as to give this summary?

A. I got this summary from old files of the United Farmers Guide.

Q. Then you say: "Patronage dividends were common; the rule of one man, one vote was observed, even though it was not always provided for in the by-laws." I do not know what that means. However, you continue: "Unfortunately, under the legal requirements of that time these factories were incorporated as joint stock companies."

What is the meaning of that? A. That it was unfortunate we did not have a Co-operative Societies Act at that time.

Q. Could they not be cooperative enterprises without that? A. Most of them were at the beginning, but gradually --

Q. --they fell from grace, cooperative grace?

A. I don't know whether they had original sin to start with.

Q. At the present time almost all the dairy companies are operated as ordinary joint stock companies. That is a statement you make in your brief, and then you say: "In a few the original ownership is lost completely and they operate as cooperatives, distribute patronage dividends and have producer control. No one knows who owns them, however." Can you tell me what kind of institution that is? A. It is an odd condition, I admit.

THE CHAIRMAN: Those are the fallen angels?

THE WITNESS: It is a fact, though. They just meet and elect directors.

BY MR. PARKER:

Q. You say they just meet and elect directors. Who meet? A. The patrons, the people in the area.

Q. Well, we have established that there are patrons. Are there shareholders? A. The records are all lost. The men have died or moved away.

Q. And no one can be found who claims to be a shareholder?

BY MR. ARNASON:

Q. Is it your view, or would you care to express an opinion as to whether one of the main problems which confronted these organizations from the standpoint of maintaining them as cooperatives, was due to the fact that they were organized as joint stock companies while there was no provision for repurchase of shares so that the ownership through shares could not be maintained? Was that one?
A. Yes.

BY MR. PARKER:

Q. How do you know that was one? Don't say yes to everything suggested to you. How do you know? A. The facts point to that.

Q. Where do you find them? A. Take one company for instance and try to trace the ownership.

Q. Have you done that? A. Yes.

Q. And have you found that is what happened, as you have told Commissioner Arnason? A. That was a question of opinion. Mr. Arnason asked me and I agreed.

Q. What is your opinion based on? Opinions are based on facts usually, are they not? A. The opinion is based on this. A man buys a share of stock and then moves away or he dies, and then something happens to the minute book, it is lost and ownership disappears.

Q. In your case if a man dies leaving a share of stock, does not someone become owner of it under the laws of Prince Edward Island, as well as in every civilized country? Why do you say there is no ownership?

A. Perhaps the heirs do not know he has stock.

Q. That does not make him any the less owner?

A. No, but it makes ownership impossible of ascertainment.

Q. On page three you say: "This movement of the 1890's and 1900's, cooperative in spirit, built a strong dairy industry in the province." How do you know that statement is true? A. You can get statistics on milk production and trace the tremendous increase from 1890 to 1907.

Q. Do you exclude all other possible factors and attribute **it** all to the cooperative spirit? A. Oh, no. There was an educational movement, of course. The Department of Agriculture helped.

Q. Government intervention, government education, perhaps government financial aid. Is that right?

A. I think there were grants, yes.

Q. These would be some of the things that established a strong dairy industry in the province from the 1890's on? A. Yes.

Q. So long as we understand that it was not all due to the cooperative spirit. Now take the Prince Edward Island Egg and Poultry Society. Do you know whether that was incorporated? A. Yes, by provincial act.

Q. It was not cooperative in form? Did it purport to be cooperative? A. Oh, yes, definitely.

Q. May I read to you the marginal note I made on my copy of the brief and see whether you agree with me.

Here is a case where hard times and lack of government aid and advice resulted in cooperative failure. Do you think that is a fair way to designate it? A case where hard times and lack of government aid and government advice resulted in cooperative failure. Is that a fair statement?

A. They have all kinds of government aid and advice but the directors won't take it.

Q. I thought the change was due to the withdrawal of financial aid. Perhaps it was moral aid? A. I can remember meeting the man who had done the work originally. He pleaded with the directors not to dissolve the organization.

Q. That was good advice? A. Yes, and they did not take it.

Q. I will say then that it is a case where hard times and the refusal to accept government advice resulted in failure. Does that suit you better? Do you agree with that? A. I don't know.

Q. What is that cited here for? It is a short history of one which was a failure. Is that right or wrong?

A. I don't know whether it was a failure.

BY MR. ELLIOTT:

Q. You mention the weakness of financing through collateral notes. Will you explain fully what you mean?

A. The way they got capital, each farmer signed a note and towards the end it was for \$25, and they put this in the bank and the bank advanced working capital.

Q. They raised most of their capital in that way?

A. Yes.

BY MR. PARKER:

Q. They never kept back patronage dividends for three or five years? A. No. There was no revolving fund.

BY MR. ELLIOTT:

Q. You mention that as one of the factors leading to their dissolution? A. I think it was a very weak method.

BY MR. PARKER:

Q. Come to page four: "After the first world war there was a great wave of cooperative enthusiasm. The success of the Egg and Poultry Co-operative, combined with dissatisfaction with marketing practices then prevailing, led to the organization of an ambitious plan for the marketing of all products of Island farms. This was the formation in Charlottetown of the Canadian Farm Products Limited, a joint stock company under Dominion Charter, which was intended eventually to be a super cooperative covering all of the Maritime Provinces. While a joint stock company, its by-laws provided for reserves and an educational fund and limited interest on capital and patronage rebates." I suggest that this is another failure of cooperatives, perhaps for somewhat different reasons. At any rate, it blew up and was not a success?

A. Management was a big factor.

Q. Further on you say: "In the 20's two cooperatives developed, one for the marketing of potatoes and the other for the marketing of livestock." And you describe them. Then you say: "They differ from both a private business and a cooperative in that no one seems to own them; nor is there any direct member responsibility or participation in their financing. Member control is practically non-existent." Is that another failure? A. No; these are still operating.

Q. You say they differ both from private business and from cooperative. What kind of institution are they?

A. They are an anomalous type.

Q. They have no share capital? How do they get their money? A. They just sort of go on week by week.

Q. How did they get started? A. Pretty much on faith, as far as I know.

Q. Have you seen their records? Did they get a charter? A. Yes.

Q. Where? A. From the provincial government.

Q. Under a private act? A. It was in the 20's.

Q. Does not the special charter say how they are to raise their capital? A. It makes provision, but they never sold any shares.

Q. How did they begin business, on credit?
A. Bank credit.

Q. Guaranteed by any individual? A. The government guaranteed credit for a while.

Q. And they went out and sold potatoes. Where did they get the potatoes? A. They got them from the farmers.

Q. Did they buy from the farmers? A. They had a pool arrangement. The farmers shipped potatoes and so much was advanced.

Q. On what terms? A. The company would pay so much and at the end of the pool they accounted for the remainder.

Q. Did they buy potatoes from the farmers on these terms. "We will pay so much and when we sell we will pay so much more, as much as we can," or did they take the product on a consignment basis and undertake to sell at the best price? A. Their methods changed.

Q. But how did it begin? A. As far as I understand, they would act as agent for the grower and advance him so much a bushel, which was under the market price, and at the end of the pool period divided it so much.

They would settle and pay back the remainder.

Q. They would pay back the remainder after deducting what? A. Working expenses.

Q. Any reserves for working capital? A. I suppose they kept some.

Q. Do you know? That is the meat of the whole thing. What did they do with the funds that came into their hands after they sold the potatoes on the market? You cannot tell us? A. I really could not give a statement on that.

Q. Let us assume they kept back perhaps five cents as reserve; did they pay back the entire balance or did they hold it for a number of years as working capital? A. Oh, no.

Q. They did not do that? A. No.

Q. On page five you say: "The first fishermen's co-operative of which there is record in Canada was formed in Tignish, Prince Edward Island, in 1924." A lot of them soon ceased to be; they were not a success? A. Some had their charter but never began.

Q. And a lot more began and did not last very long but petered out; "and in 1944 seven of the most successful fishermen's unions became incorporated under the general Co-operative Associations Act." There is a suggestion there that the poor success of the fishermen was due to the fault of the existing law. I thought the cooperative movement was purely voluntary as long as the law did not forbid them to do certain things. I thought they were free to become as successful as they could; but you leave the inference -- perhaps you did not intend it -- that their lack of success was due to the faulty position of the law? A. No. They say there is an advantage,

from the standpoint of supervision and guidance, in the Co-operative Associations Act which was not conferred by the old Fishermen's Union Act.

Q. You say: "Cooperation among fishermen has had spectacular results. Time after time the organization of a fishermen's union has been followed by a rise in the price of lobsters from two to as high as five cents a pound. Other fish has had corresponding increases in price." What are the dates? A. That happened a number of years ago.

Q. What time? A. In the 30's.

Q. The early or the late 30's? When was it that these advances in the prices of lobster and other fish took place? A. That has been the condition since 1924, from what I can gather in talking to fishermen.

Q. Is it just a general statement or is it based on actual facts so that it will mean something? If it is just a general statement gathered from general talk with people in the country I would like to know.

A. I suppose anything I say can be construed as hearsay.

Q. Oh, no, because a lot of these documents are in your personal knowledge. A. I have spoken to members of unions and that has been the story time after time. After incorporation of the local union the local buyer jumps with the price.

Q. Are you referring to the war years or prior to the war? A. No, before the war.

BY MR. ELLIOTT:

Q. Have these statements any relation to some change in the buyers, the merchants, or do they relate simply to the price the members paid the fishermen? A. It is quite independent of the market price. The buyer has raised his

price. There is a corresponding change in the prevailing market price.

Q. On what sort of evidence is that based?

A. I have gathered that from talking to members of unions time after time.

Q. It is the same source? A. I suppose it is hearsay.

Q. You have not checked up statistically on any of these statements? A. I have no documentary evidence.

BY MR. PARKER:

Q. Take the village of North Rustico: of what time are you speaking? A. From 1936 on.

Q. In 1936 these educational matters began? A. Yes.

Q. And when was the credit union formed? A. It was incorporated the first of June, 1937.

Q. What date are you speaking of when you refer to the high incidence of poor health among the people of the community? A. That test was taken in 1938, but it may have been 1939.

Q. Has a test been made since? A. 1938 I think.

Q. Do you know what the percentage is now?
A. I don't think there has been any general check-up since.

Q. So that there is nothing whereby one can make a comparison? A. That was not put in there for purposes of comparison.

Q. What was it put in for? A. To indicate the general health conditions.

Q. Have you told us how the general health has been improved through the existence of cooperatives? In what way has any improvement come about? It is difficult to answer that question, is it not? A. Yes.

BY MR. ARNASON:

Q. I was wondering whether one of the reasons why you put that in was to indicate that the health condition of the people was one index to the conditions generally in the community, which conditions in turn led to the desire to incorporate a cooperative association? A. That was the idea.

Q. You do not know of course, definitely, whether conditions have improved, from the standpoint of health, since that time? You are referring to the original need for some action? A. Since that time they have done a lot of things. For instance, they put in a cod liver oil plant and the fishermen's union gave so much to the school, and things like that.

BY MR. PARKER:

Q. I am directing your attention to this so that the matter will be clear. When was the modern school built? A. Around 1940.

Q. Do you know that a year or two there might make a bit of difference? A. I am not sure.

Q. It is a very modern school? I suggest these things were all built during the war period, resulting from the improved financial conditions prevailing not only in Rustico, but generally everywhere. All sorts of improvements were taking place as a result of the war and Rustico shared in them. I do not say that the cooperatives did not contribute, but there has been a general condition of prosperity? A. They had high prices in world war No. 1.

Q. I did not get that. A. I say that in world war No. 1 the fishermen had high prices too but they did not advance after that period.

Q. Do you know that? Don't guess at it. Do you

know about it, or don't you? A. Yes.

MR. FRANCIS: My learned friend should not use the word guess. The witness is well qualified, he is a student, and I object to that word.

BY MR. PARKER:

Q. Is it the case or is it not? A. I have forgotten what you were talking about.

Q. My learned friend has succeeded in his point then. Whatever the cause, these improvements have been built during war years? A. Well, at the beginning of the war, yes.

Q. We all have a pretty good recollection of these things. That was in 1939. The evidence you gave was that the school was built in 1940 or 1941? A. The big price rise in fish --

Q. I am talking about buildings, community hall, recreation facilities and so on. A. There is no doubt that high prices in the war had a lot to do with it.

Q. On page six this same question comes up again. Morell is mentioned. Are you referring to the war period? Is that when the improvement took place? A. This whole development only started in 1938, but that is not the whole story. Though we did not have cooperatives we had dealers making large profits in that war period when prices were high and this money would not be going back into local improvements. That is more the point.

Q. I direct your attention to this statement in the second paragraph on page six: "Part of the trouble undoubtedly was due to an inadequate legal set-up. Forcing them to incorporate as joint stock companies, the law did not hold the early cooperatives to true cooperative practices." Let us stop there a moment. What do you

mean by saying that the law forced them to incorporate as joint stock companies? It did not force them to incorporate at all. It was purely voluntary. A. But if they wanted to incorporate they were forced to incorporate that way.

Q. You go on to say: "The financial basis in particular was faulty." What was wrong with it? A. That question of collateral notes was one thing.

Q. They did not have to do that? A. Perhaps they did not know better.

Q. It was not the law that made them finance by collateral notes; it was a matter of choice? A. Yes.

Q. "Capital was usually inadequate, reserves were forgotten in the good times, proper bookkeeping was never insisted upon and member control was remote." Capital was inadequate. The people would not buy shares? A. Yes.

Q. And reserves were forgotten in good times; the company would not hold back reserves? A. Yes.

Q. Giving whatever the members wanted? A. Yes; but under the present Act they are forced to set aside a certain amount regardless of the members' wishes.

Q. You are frank to say: "This is not to say that you can legislate cooperatives into being, or keep them in operation. But it does point to the fact that unless there is suitable legislation and supervision, a cooperative has little chance of permanent success." You would not mean, by suitable legislation, suitable taxation exemption? Is that what you mean? A. Are you referring to income tax?

Q. Yes. A. That is the old argument again.

Q. We have to face it. A. They pay all the other taxes.

Q. But we have been told that in some provinces they pay hardly any; they are exempt in the localities in which they are situated and they are exempt from provincial taxes?

A. They pay school taxes.

Q. In some provinces they do not. But do you mean, by suitable legislation, legislation that enables these co-operatives to function properly? Do you include income tax in that description of suitable legislation? That is the concern of this Commission.

A. When I was writing that I was thinking of our act or similar acts as being a guide, a kind of good cooperative act.

Q. And under whose supervision? Under their own, the cooperatives, or government supervision?

A. Government supervision.

Q. Should it be necessary, in a voluntary effort such as this purports to be, for them to carry on in that way? Can they carry on only if the government stands by with a whip in its hand to discipline them and see that they co-operate?

A. We don't look on the government inspector in that light. He helps the movement.

Q. I am sure the government inspector will appreciate that. However, that is what you have in mind, that they need government supervision to see that they keep their house in order?

A. Sympathetic supervision.

BY MR. ARNASON:

Q. Would you say that the main part of that supervision was a careful scrutiny of applications for incorporation to see that they did not get in over their heads before they had enough capital subscribed, and to take the necessary precautions?

A. Yes.

BY MR. PARKER:

Q. Look at the next paragraph: "In Prince Edward

Island a program of adult education was carried on under the leadership of a non-partisan, non-sectarian Adult Education League, financed and encouraged by the government." I call attention to the fact that the good things resulting from the movement seem to flow from the activities of government, both divine and otherwise, instead of being generated by the cooperatives themselves. Is that a fair comment? A. No.

Q. What do you mean then? A. It was really a part of the function of the government in education.

Q. Was it financed by the government, or was this league given public grants? A. Yes.

Q. Was it given public grants? A. I cannot really answer in just that way. We have a library system in Prince Edward Island and it was endowed in the first place by the Carnegie corporation, and after it was established the government took it over. There were certain grants on account of expenses for adult education and that gave an impetus to that part of the work in connection with the library, providing travelling librarian, and so on.

Q. But the original grant of the Carnegie foundation had to be supplemented by the government? A. Yes.

Q. And that is what you are referring to? A. Yes.

Q. On the top of page seven you have given us some figures. "In two years, as a result of these good influences that were at work, government assistance and encouragement, three hundred study clubs were formed." Where do you get those figures? A. The secretary of the Adult Education League gave me that.

Q. "The number decreased, however, after the beginning of the war." Why? A. A number moved away and

went into the forces and there were all kinds of activities going on, Red Cross, and so on.

Q. I suggest it is partly explained by the fact that prices were good and people were busy growing potatoes and so on? That accounts for the slackening in interest in the study clubs. Is that right? A. There is no doubt that people were a lot busier than they had been formerly.

Q. Let us come to the middle of the page. Are these your ideas of what a true cooperative ought to be like?

A. That is a quotation from the by-laws.

Q. Do you adopt it as sound? A. Oh, yes.

Q. Look at number three particularly: "The difference between the net cost price and the net distributing price after paying overhead cost, and setting aside reserves, shall be returned to members as savings' returns in proportion to their patronage, or used collectively for social purposes, if members so desire." Who are the members? A. The shareholders.

Q. Are those terms synonymous, shareholders and members? Must every member be a shareholder? A. Yes.

Q. How many shares? A. One.

Q. Ten dollars? A. Usually five, some more.

Q. If any person does business with the association and declines to buy a share what is his status? Is he a member? A. He is a non-member.

Q. Are there such in Prince Edward Island?

A. There is a certain number of non-members.

Q. Does the non-member share in the returns?

A. In some they set aside a part of the earnings to his credit.

Q. Of your own personal knowledge do you know whether the person who does business with one of these companies,

and who for some reason has not purchased a share, participates in these returns paid at the end of the year?

A. In some cases he does and in other cases he does not.

Q. In those cases in which he does, does he share on the same basis as the shareholder? A. Yes.

Q. You say you are quoting from the statutory by-laws. A. Yes.

Q. The words "savings returns" are used there and we come back to our old trouble. Will you explain why the words savings returns were used in the by-laws instead of the good old Anglo-Saxon word profit? -- provided it is Anglo-Saxon; I am not sure. A. I suppose whoever wrote it used cooperative terminology.

Q. Did you have anything to do with the drafting of this Act and the by-laws? A. As I recall, we used the model set up by the United States Department of Agriculture.

Q. I thought you said it was modelled after Saskatchewan? You no doubt got all the information you could, but I was wondering whether you discussed these various terms -- profits, savings, surplus, returns and so on -- and after careful consideration picked on this expression as the most suitable one? A. I suppose we knew about these other terms.

Q. Don't suppose; tell us what you remember.

A. It is hard to remember back to 1938 when it comes to one word.

Q. It is a most unusual word. I am sure that some of the acts you examined at the time contained the word "profit" but for some reason you did not adopt that word?

A. We relied on this authority, I guess.

Q. What authority? A. That was from the standard by-law suggested in a pamphlet that came from the United

States Department of Agriculture!

Q. I thought this was something you had discussed among yourselves and your friends?

THE CHAIRMAN: As a student of the movement, do you approve of deferring the payment of patronage dividends for a number of years, or do you think they should be paid in the year in which they are earned?

THE WITNESS: We only use that method in one of our co-operatives, but I think it is a rather good method myself, that revolving fund.

THE CHAIRMAN: Good in what sense?

THE WITNESS: In the sense that it keeps the active members owners for one thing, and in another sense, that it provides capital in proportion to use.

THE CHAIRMAN: Provides reserves, an accumulation of reserves for working capital?

THE WITNESS: Yes. They are paid back after five or six years.

THE CHAIRMAN: Do you know it is widely employed in some other provinces?

THE WITNESS: Yes.

BY MR. PARKER:

Q. What do you mean by "unlimited membership"? I need not delay over that, however. The next item in that list is "political, religious and social neutrality". Does that mean a thing as compared with private companies? A. We get down to cases; this is set forth more as a general principle.

Q. But isn't it rather meaningless? A. Oh, I don't think so.

Q. And "business on a cash basis". Have they lived up to that? A. Yes.

THE CHAIRMAN: Do you attach great importance to the last element?

THE WITNESS: Yes, I do.

MR. PARKER: Business on a cash basis? Is that what your lordship is referring to?

THE CHAIRMAN: Yes.

BY MR. PARKER:

Q. I am asking you, doctor, if there is a serious attempt to live up to this or whether there are frequent and wide departures from it? A. There are minor departures.

BY MR. ELLIOTT:

Q. Returning to the question of unlimited membership, what significance do you attach to that provision yourself? What meaning has it for the cooperative movement?

A. It puts it on a broad community basis rather than on a close basis or any other dividing line.

Q. If that were not in the by-laws there might be some temptation to the membership? A. I don't know.

THE CHAIRMAN: That is sometimes referred to as open membership?

THE WITNESS: Yes.

THE CHAIRMAN: Is that what you mean by unlimited membership?

THE WITNESS: Yes.

BY MR. ARNASON:

Q. I was interested in that phrase in clause (3), "or used collectively for social purposes."

BY MR. PARKER:

Q. What do you mean by that, "or used collectively for social purposes"? That does not go back to the members? A. It would depend of course on the decision the

membership made, the decision of a membership meeting.

Q. Or of a directors meeting? A. Oh, no.

BY MR. ARNASON:

Q. In the distribution of funds for social purposes directors and members would bear in mind clause 5 dealing with political, religious and social questions?

A. If a cooperative society wanted to make a contribution to a community hall they could do so under this.

BY MR. PARKER:

Q. What bothers me is this. If the society can use its funds for that purpose it could use them for anything in the world, and we could all do good works in the community if we could use that money with which we otherwise pay income taxes. But we cannot do both. Why is not this money that is voted by the society through its members used to pay taxes? A. Is there not an exemption for charitable purposes?

Q. But apart from that. Are you placing this under the head of charitable works? A. It is similar.

Q. You claim exemption for it under that section. Are you putting it on the ground that it is exempt because it comes under that section of the Act--you know the one I mean? A. I do not believe that when that was written the income tax was thought of very much.

Q. I wonder. Then we come to the following provision: "The directors shall apportion the surplus arising from the business of the association as follows." Relying on this Act, which I gather is important and is more or less a guide to this type of association, it contemplates that the association when it is created carries on business. It talks about the business of the association and it talks about surplus arising from that

business and it goes on to say how that surplus shall be disposed of. Will you kindly tell us what is the difference between that surplus they talk about in the Act, and "savings returns", and profits? Take those three together and tell us what is the difference between them. You have this apportionment made (a) by setting aside not less than 10 per cent of the net surplus for a reserve fund, and so on; and (b) by setting aside an amount not exceeding 5 per cent of the net surplus for cooperative education or welfare fund; and (c) by paying interest on the paid up capital stock; and you say that "the remainder of the surplus shall be divided among the patrons and shareholders in proportion to the volume of business they have done with the association." Whose is that surplus that the Act is talking about? Is it not the association's surplus?

A. It is really an overcharge to the members on the business they have done.

Q. Whose is it? A. It is among the members.

Q. And yet the legislature solemnly gives us lengthy directions as to what the association shall do with the surplus arising from its business. Perhaps you are right, but that is the way you read it? A. Yes.

Q. The remainder is to be divided among the patrons and the shareholders. The word member is not mentioned here. A patron is anyone who does business with the association? A. Yes.

Q. He would not necessarily be a shareholder? Let us take an ordinary potato association organized for the purpose of disposing of potato crops. Fifty farmers come and buy the requisite number of shares and become members. I may be one of those stubborn fellows, and I might say, "I won't buy a share but I want my potatoes to go through."

Do I become a member by reason of the fact that I put my potatoes through the association, and thereby qualify for the same patronage dividend as my neighbour who has bought a share? A. The usual practice would be to get authorization to credit that.

Q. I don't care for the moment whether it is paid out or credited, but do I get the same amount? A. You automatically become a member.

Q. Whether I want to be or not? A. You have an authorized allocation.

Q. And do I have to sign an application for membership or an application for the purchase and allotment to me of a share? A. I do not know the exact practices in the different cooperatives.

Q. We have seen in some cases that, the non-shareholder or non-member having put his produce through the association, a certain amount is held back and he is credited therewith, and not until these credits amount to a share is he a shareholder. Is that the way it works here? A. Yes.

Q. Until he has accumulated enough to pay for his share he does not get an actual dividend. But does he get part of it? A. Usually they credit the whole of it to his account and if he wants he can withdraw it.

Q. You say: "The supervisor of cooperatives will not recommend that a charter be granted unless sufficient capital has been subscribed to carry on the type of business proposed." In Prince Edward Island are there any co-operatives without any share capital at all? A. Not under this Act.

Q. Are they any the less cooperative because of that? What do you say, speaking as a student of the

movement? A. One of the fundamentals of this movement is the distribution of ownership with responsibility attached to ownership and if they do not own anything in the co-operative and have no responsibility they have nothing to bind them.

THE CHAIRMAN: You admit there may be spurious co-operatives that do not live up to, or try to live up to the Rochdale principles. They would not be cooperatives but would be simply masquerading under that name?

THE WITNESS: Yes.

BY MR. PARKER:

Q. I pass over hurriedly pages nine, ten and eleven. In Table I you show the growth first of credit unions. The figures speak for themselves. There has been great growth both in the number of unions and in the cooperatives in respect of their total assets, especially in the years 1942, 1943 and 1944, the war years? A. Yes.

Q. Whereas the growth is much slower in the earlier years. A. Yes.

Q. In the cooperatives nothing is shown for 1938, and there is a drop back which you explain by the fact that one society went out of business; but apart from that the growth is very much accelerated as the war years proceed, and that is seen from the next table giving the reserves, capital and earnings, which all parallel more or less the war period, and -- this is purely coincidental no doubt -- during the period in which they are not paying income tax, because none of the members of your union have paid Dominion income tax? A. Yes; as far as you have gone.

Q. Have I not gone far enough? A. Are you suggesting cause and effect?

Q. The mere fact is that they do parallel the war

years and they have not been paying income tax.

BY MR. VAUGHAN:

Q. Would the increased prosperity be explained in part by that? A. Yes, undoubtedly the increase in membership.

BY MR. PARKER:

Q. Can you tell me whether during these years shown in the tables any of the members of your credit union have filed income tax returns with the inspector? A. I should say so; I do not know.

Q. Do you know whether they have been assessed?
A. The individual members?

Q. No, the fifteen societies which are members of the union. Have they filed income tax returns? A. I do not think so.

Q. Have they ever been requested specifically to do so? A. They have had questionnaires.

Q. Have they answered them? A. Yes.

Q. And so far they have never been taxed? A. No.

BY MR. ARNASON:

Q. Do you know whether your credit unions have been required to deduct 7 per cent tax on dividends?
A. They have not suggested it.

BY MR. PARKER:

Q. You have given your experience with the Provincial Income Tax officials and their rulings and your guess as to what they may do in the future. What I would like to get from you as a student of the cooperative movement and one whose judgment would be appreciated is this: What do you think of their interpretation of the Act as it stands, first as to the reserve they set aside? Should they be taxed, or would you make a distinction between those actu-

ally paid and those allocated and paid back years later on the revolving door plan? Give us your view! You have given us the provincial official's point of view and the Commission would like to get yours! Either you agree with them or, if you do not, you can give us your view.

A. I disagree with taxing reserves set aside under the Provincial Act.

Q. I did not get the answer. A. Reserves which the Provincial Act requires.

Q. They should be exempt? A. Yes.

Q. Do you think that because a Provincial Act directs that a company shall do certain things with their reserves, that could possibly affect the question whether the Federal Income Tax Act might render them taxable? A. I suppose it is a necessity designated as such by the provincial government.

BY MR. VAUGHAN:

Q. Will you look at Exhibit B. Take the loans to members. What interest do you charge members? A. It varies. The maximum is one per cent per month on unpaid balances. Most of them charge less. I would say the average would be three-quarters of one per cent per month.

Q. Most of them would be three-quarters of one per cent? A. Yes.

THE CHAIRMAN: One per cent per month is rather dangerous, is it not? It goes over 12 per cent per annum.

THE WITNESS: That is mathematically true, yes. It is usually done in a small organization getting started.

BY MR. VAUGHAN:

Q. What rate is paid on shares? You have shares running to \$234,000? A. That is all summarized in the report. This of course is a year old. It is summarized

for the last three years. One paid five; some paid nothing; some paid two; some paid one and a half, and so on.

Q. There is quite a difference. It runs from nothing to 5 per cent? A. That 5 per cent is an exception.

That credit union did not pay a dividend the year before and that was to equalize things.

Q. What would be the average? A. Around 2 would be the average this year.

Q. In your deposits you have \$84,000 on which interest of \$444 was paid. That is only half of one per cent?

A. It depends on the period the deposits were in.

Q. What would be the average? You have deposits of \$84,000. What would be the average for the year?

A. You would have to get the balance sheet of the year before. Deposits were \$41,000 the year before.

Q. That would be an average of \$60,000; that is about two-thirds of one per cent? A. They generally charge one per cent.

Q. That is the usual rate you pay depositors?

A. Yes. They are usually left there only for a short time.

Q. There is \$6,000 net income. Generally speaking how is that disposed of? A. That would go in dividends, most of it.

Q. Dividends on shares? A. Yes. You have to take 20 per cent for guarantee fund and 5 per cent for educational fund and the remainder is distributed in dividends.

BY MR. ELLIOTT:

Q. In Exhibit A under the heading "capital" the second item is loan capital, \$13,379. What is that exactly? A. That is in essence a loan from members.

Q. Made at the wish of the individual member?

A. Yes.

Q. For a specified period of time? A. It is generally regarded as on demand.

Q. And the member ordinarily can get that repaid to him when he wishes, or after short notice? A. Yes.

Q. What is your opinion of that method of financing? A. I don't like it really.

Q. Why? A. It is an unstable sort of thing.

Q. There is always a danger that the member might want it at once? A. Yes.

BY MR. ARNASON:

Q. Following the questions asked by Mr. Elliott, do the members leave moneys with the cooperatives on loan and do some of them require that specific notice of withdrawal be given? A. I don't think there is anything in writing, a formal agreement to that effect, as far as I know.

Q. At previous hearings of the Commission it has been shown that some cooperatives finance almost exclusively by loan capital, and in some instances provision is made for withdrawal of such capital by giving a minimum notice of withdrawal up to three or six months. What is your opinion as to that type of financing as compared with what might be termed call loans? A. That would be the sounder method, I suppose.

Q. Another point bearing on Exhibit A. Under the hearing "capital" you have revolving capital of \$2,676. That is what is termed the revolving or deferred dividend? A. Yes.

Q. Following up the line of questioning put to you by Mr. Parker, and with specific reference to your comments as to the attitude of the income tax officials

regarding the taxing of patronage refunds, do you think that if a part of the patronage dividends or patronage refunds were retained for some time by the cooperative and then paid to the members, the retention of such dividends would change the position from the taxation point of view in so far as deferred dividends are concerned? A. That is a rather involved question. It would depend on the type of cooperative, I suppose. It would depend on the way it was done.

Q. I am referring to the rather common practice whereby the directors are authorized to hold back for a certain period a portion of the patronage dividends after they have been credited to the members. It is on the so-called revolving door principle. The question has arisen during previous hearings as to the position of the deferred portion of the patronage dividends as compared with the portion of dividends that is paid out at the time they are paid out? A. Generally speaking I would say there would not be much difference but it would depend on the matter of interest.

Q. Suppose interest were paid, what would be the position then? A. I suppose that interest would be taxable.

Q. Suppose no interest were paid by the cooperative on these deferred patronage dividends? A. It is just one method of the cooperative getting capital.

.....

The Commission thereupon adjourned to meet on
Friday, March 2nd at 10 a.m.

Moncton,
Friday,
March 2, 1945.

The Commission met at 10.00 a. m., Mr. Justice McDougall presiding.

THE CHAIRMAN: I regret to announce that one of the Commissioners, Mr. Nadeau, is not very well this morning and has had to stay at his hotel. What is the order of business today, Mr. Parker:

MR. PARKER: I finished with Dr. Croteau last night.

Examination of J. T. Croteau continued:

BY MR. FRANCIS:

Q. Doctor, I would like to ask you one or two questions arising out of the examination by my learned friend. During the examination yesterday some reference was made to library service and I have one or two questions in that regard. I understand you have complete library coverage or service in Prince Edward Island? A. Yes.

Q. How many regional branches have you?

MR. PARKER: By "you" meaning whom?

THE WITNESS: The province. The Carnegie Corporation put that in about twelve years ago. There are twenty-four branches with headquarters in Charlottetown, each branch having about 1,500 or 2,000 books and they change the collections yearly. We built a good deal of the educational work around the library set-up.

BY MR. FRANCIS:

Q. What would be your opinion as to the contribution the libraries have made to the cooperative movement development? A. A big contribution. There is a collection of books on cooperation in all branches. They publish a bibliography and distribute pamphlets and study material.

Q. What is the population of Prince Edward Island?

A. A little over 94,000.

Q. Do you know the circulation in the libraries?

A. About a quarter of a million books a year.

Q. What is your opinion as to the importance of having adequate library facilities in this work?

A. We regard this as an educational movement and the library is a tremendously important factor in adult education.

Q. With regard to the credit unions, in discussing the financial statement and the summary in your brief,

you showed that a very large amount had been invested in Victory Bonds. What is the cause of that? A. Everyone in a credit union likes to invest in Victory Bonds. They regard it as their duty, and another thing is, of course, that it makes it possible, in view of war conditions, where there is a large surplus of cash and an absence of other opportunities for investment, for the farmers to invest their money. The farmers cannot buy farm machinery to any great extent now, or things like that.

Q. During the 30's, when you were first in Prince Edward Island, did you go out through the province a good deal and have personal contacts with many of these districts?

A. Oh yes.

Q. You are personally familiar with them? A. Yes. I have travelled all over the province.

Q. My learned friend was bringing out reasons why these cooperative unions and credit unions were formed. What is your opinion as to the necessity for them?

A. The conditions in many places were really desperate and they had to have a change.

Q. Another point had to do with the patrons of co-operative associations becoming members, and as I recall the evidence it was that in some cases patrons automatically became members and in others they did not, but it was not made clear just what the difference was. May I direct your attention to section 30 of the Co-operative Associations Act of Prince Edward Island, being Chapter 6 of 1938, subsection 8: "The association may by supplemental by-law provide that dividends due the patron shall be retained by the association and placed to his credit on share capital account until an amount equal to the par value of one share has accumulated when a stock certificate for one share shall be issued to him." That is the Act as it now stands? A. Yes.

Q. Is it a fact that some associations pass these supplemental by-laws and some do not?

MR. PARKER: How can he know unless he has the record?

THE WITNESS: I know that is the practice. I suppose they are authorized.

MR. FRANCIS: I suggest that is the reason.

MR. PARKER: Don't suggest; let him give the answers.

THE CHAIRMAN: The Statute is there, Mr. Francis.

MR. FRANCIS: I wanted to direct the attention of the Commission to the Statute while the witness was on the stand. I did not think the matter was very clearly brought out yesterday.

BY MR. PARKER:

Q. What part of the library does the cooperative attend to? What is done by the Government with the aid of the Carnegie branch? Whose library is it?

A. The Carnegie Corporation used this as a sort of model area set-up and gave regional grants amounting to a little over \$100,000.

Q. To whom did they give it -- the provincial Government? A. Yes.

Q. And the provincial Government operates the library?

A. Now they do. After three years they took it over.

Q. The cooperative never operated the library?

A. No.

Q. It is purely a Government institution assisted by grants from the Carnegie foundation? A. Yes, but they provide educational material for the cooperative. The cooperatives never operated it.

BY MR. VAUGHAN:

Q. Referring again to investments in Victory Bonds, it is no doubt very commendable on the part of the credit union, but do you know why the depositors themselves do not invest in Victory Bonds instead of leaving the money on deposit at 1 per cent while they can get 3 per cent on Victory Bonds and help the Government in that way? They would get 3 per cent as against 1 per cent or less from the credit union? A. That 1 per cent is on deposit shares. They generally get a little more than 1 per cent, perhaps 2 per cent. There is a division between shares and deposits.

Q. There is a large amount on deposit on which less than 1 per cent interest is paid, and these same depositors could get 3 per cent on Victory Bonds? A. But it is usually a temporary or seasonal investment. They leave it two or three months on deposit and when they are investing in Victory Bonds they would want to keep it for a period of years.

Q. There is a constant amount on deposit?

A. The main reason is that many of these are too small. The accounts would be less than the minimum of fifty.

Q. But you can buy war certificates for a lot less.

A. A lot of them do in fact. The credit unions sell stamps and certificates.

Q. The fact does remain, however, that they leave their money at less than 1 per cent on deposit when they can get 3 per cent on Victory Bonds on the same kind of Government investment. A. For the small investor putting \$50 or \$100 in one thing or another, 1 or 2 per cent in dollars and cents is not worth worrying about. For the person investing thousands it is different.

Q. How many investors have you represented in this account altogether? A. In 1943 there were 495, that is taking deposits of about \$41,000.

Q. That would be \$100 apiece. That is a fair deposit. There are a good many smaller deposits? A. A lot of them are seasonal. A fisherman at the end of the season might put in \$500 or more and he would have to use that in the winter to live. He puts it in for safe keeping.

BY MR. FRANCIS:

Q. How do the members establish personal credit with the credit union so that they can get loans themselves?

A. They build up their shareholding by systematic saving.

Q. Is that the reason why they want money in the credit union? A. It would be another reason.

BY MR. ARNASON:

Q. In your brief on page five you refer to the rise in prices of lobster and fish as a result of the organization of certain cooperative fishermen's associations? I presume

that what happened there was that the margins of the local dealers were narrowed because of the operations of these cooperatives. Can you tell us what happened to the price of fish and lobsters at those points where cooperatives were not organized? Did any change take place in the prices charged by dealers at those points as compared with the points where cooperatives were organized? I know it is a difficult question. A. It is a fact that prices remained low in some parts where there were no cooperatives. For instance, towards the eastern end of the Island there is a section where there are no cooperatives, where fishermen come in to fish from other places in company boats. Last year I was informed that they were receiving only 8 cents a pound for lobsters even at the high prices of today -- I am referring to those who fished in the company boats -- whereas they get 22 and 23 cents.

MR. PARKER: I cannot see the relevance of all this evidence unless it is used to support the argument that notwithstanding the great prosperity brought about by the cooperatives they should still be exempt from taxation.

THE CHAIRMAN: That is a matter of argument, if the basis is laid.

JEROME O'BRIEN,

President,
The Prince Edward Island
Co-operative Union,
having been duly sworn,
testified as follows:

BY MR. FRANCIS:

Q. For the purposes of the record I wish to ask you first what positions you hold with various Prince Edward Island cooperatives and credit unions. I may save time, my Lord, if I lead the witness. You are President of the Prince Edward Island Co-operative Union? A. Yes.

Q. President of the Morell Credit Union?

A. Yes.

Q. And President of the Central Study Club at Morell? A. Yes.

Q. Secretary of the Morell Creamery Co-operative Association? A. Secretary of the directors.

Q. And in addition to that your job is Assistant Manager of the Morell Co-operative Store? A. Yes.

Q. Morell village has a population of two hundred? A. Yes.

Q. It serves the district in the vicinity shown on the map with a population of nearly 1,000? A. Yes.

Q. I understand that the Creamery Association to which I have referred serves a much larger area than the area with a population of 1,000? A. Yes.

Q. Generally speaking the other cooperatives and credit unions serve that area with the population of 1,000? A. Yes.

Q. You are a graduate of St. Dunstan's University and a graduate in arts of Laval University? A. Yes.

Q. I understand that the Morell Community was established by the French a long time ago and that prior --

MR. PARKER: Probably neither of them know that.

BY MR. FRANCIS:

Q. I may tell my learned friend that in the province of Prince Edward Island they do study history. Prior to 1923, I understand, a few attempts were made to organize and establish cooperatives -- and I am speaking of Morell particularly? A. That is right.

Q. Will you tell us from your information and from what you know whether anything was done between 1923 and 1936 of a cooperative nature. A. No. Cooperation was

dead. It was a dead issue in those years from 1923 to 1936.

Q. What revived interest in the cooperative in 1936 or 1935? A. The years 1935 and 1936 were not prosperous times but rather years of depression, and perhaps the worst of the depression years. People were saddled with debt and things got to such a pass in 1934 that the majority of the farmers in our district were unable to borrow money. The banks took the stand, and I don't blame them, that it was not to their economic advantage to lend money.

Q. What did the people do about it? A. The people had heard of these credit associations and about the work in Antigonish. They had heard about the work they had been doing over here and so they started inquiring into the credit union movement and had a few meetings, but most of the old Scotch and Irish over on the Island did not feel that they could trust one another with the money at the start. In the meantime the Adult Education League had been formed in Prince Edward Island. I am not sure of this fact, but Dr. Croteau was Secretary or at least was the directing force.

Q. Dr. Croteau who gave evidence here yesterday? A. Yes. The next year, in the fall of 1936, we started three study clubs with twenty-five members and they began in earnest studying credit unions. They took all phases of the subject, studied management, directorship, etc., and in the spring of 1938 there were thirteen study groups with 150 members.

Q. Is this all in the Morell area? A. Yes.

Q. How often do they meet? A. Weekly. They not only studied but they also started to trust each other with

collections subscribing 10 cents weekly towards shares in a credit union.

Q. Did they form a credit union? A. Yes. They did in March, 1938, with a capital of \$94.37.

Q. And that had been saved by weekly collections of 10 cents each? A. Yes.

Q. Did the study clubs discontinue after that venture was launched? A. No. They continued saving a weekly amount and continued increasing the credit union, and today after seven years they have about 250 members. The membership is not so much greater, but the capital is \$30,000.

Q. And that has taken place during what period? A. From 1938 to 1944.

Q. Has it done anything to solve the credit problems of the people? A. Yes, I think it has. It has solved all the personal credit needs. That is, the small personal loans that you or I or anyone else might need.

Q. I might anyway. A. It has also solved the greater part of the difficulties in connection with seasonal loans such as required for fertilizers, feeds, and so on, when money is scarce at certain times in the year.

Q. What about long-term loans? A. There has been something along the line of long-term loans, but we have a little safety rule that we cannot lend more than 15 per cent of the assets on mortgages because it is dangerous.

Q. Has the credit union any policy with regard to the reduction of members' debts? A. Yes, especially the credit committee. I have often instructed them, and even the study clubs, always to encourage borrowers to reduce

their debts as quickly as possible in order to meet possible post-war conditions; which may not be so favourable as things are today.

Q. Did you have any further venture in the Morell community? A. Yes. We had not got the credit union rightly started when some of them wanted to get into a co-operative store. They had taken up different pamphlets, I presume, and studied them at home and they had heard of cooperative stores and they thought that would be the best thing for them to do. The leaders who had studied the movement a little more thoroughly and had read over the Rochdale principles saw that it would be necessary to do a good deal more in the way of study before they really started, so, in 1938, in the fall of the year, they bought a building lot at Morell. It took them two years to study management, how to run a store and also how to procure the necessary share capital, because dollars were scarce then.

Q. Were they meeting once a week? A. In the winter months.

Q. How much capital did they get? A. In May 1940 they started the store with a capital of \$1,542.

Q. Did they lay down a policy as to cash trading? A. Yes. They laid down the principle of buying for cash and selling for cash.

Q. What was the volume of business the first year? A. \$10,000.

Q. What was the volume in 1944? A. \$108,000.

Q. What increase has there been in share capital? A. The capital has increased from \$1,542 in 1940 until today it is over \$20,000. That is the loan and share capital, remember that. It is loan and share capital

combined.

Q. Is most of the business done with members?

A. Yes, nearly all.

Q. During the four years of operation how much has been distributed in patronage dividends to the members?

A. I could not tell you in definite figures.

Q. From the records? A. From ten to eleven thousand.

Q. Paid out or allocated? A. It is distributed.

Q. Was that the last venture in Morell of a co-operative nature? A. No. We started a little creamery before the store, but owing to the fact that we hadn't enough share capital we could not get it incorporated until 1942.

Q. Have you the creamery now? A. We still operate the creamery.

Q. And it serves a larger district than just the Morell area? A. Yes.

Q. But it is at Morell? A. Yes.

Q. What is the business? A. The first year we operated around \$8,000 and this year nearly \$100,000.

Q. Has the operation of this creamery had any effect on production methods in the area? A. Yes. When we began the creamery, the whole time we could operate it in the first year would be five months, and the next year it was about eight months, and the year following it was the full year round and that has been the story ever since. In other words, the creamery has educated the people there into the idea of all the year round production instead of summer production only.

Q. Have you done anything about poultry and eggs?

A. Yes. In connection with the store, the year they started in that fall they established a grading station and the quality of eggs and poultry products has considerably increased as well as the quantity.

Q. Have you had a chance to compare this development of yours with a private or joint stock company? A. Yes. It is very good in that regard. The fishermen in 1940 started what they called a cooperative but it really was not because they organized under the Joint Stock Companies Act and they had no share capital. For two years they did a very fine business and increased the price of lobster 4 cents appound. I can't give absolute facts that I can swear to but I will give something approximately correct. The price at that time was about 7 cents a pound and the first year they went into business they paid 11 cents.

Q. What happened to the organization? A. It would have been a profitable business but through lack of member control the members were not educated to manage their business and within three years the former manager took over and is now the owner.

Q. I take it that as a student you have heard of the resolution passed by the United Nations at the Food Conference in 1944? A. Yes; I have heard of it.

Q. The point is this. Have the people in your community who have been studying these matters for years given any real consideration to post-war problems in the Morell district? A. Yes.

Q. Will you tell us something about that?

A. It has been given consideration for the last three years, having been mentioned every winter. They have certain plans and projects for the post-war years.

Q. I don't mean something that they are talking about in a general way, but are they really planning certain things? A. Yes.

Q. And giving real consideration to those plans? A. Yes.

Q. What are they? A. Well, first is the new store building, a comfortable place of business, and anyone who has been in Morell knows that we need that; and next is a feed-mixing plant to ensure the farmers mixed feeds at reasonable cost in case post-war prices are not as favourable as they are today. That would be service from our point of view and not a profit-making venture. Another thing that has not been worked out in detail is a chick hatchery because the machinery is not available until after the war, so that details have not been gone into very fully. That is something which we hope will supply the farmers with baby chicks at reasonable prices to keep them in production if prices are not so favourable. Next is the creamery. We have a very large business and that is worked out in detail. We intend to build a new creamery and instal in conjunction with it a local cold storage with farmers' boxes and so forth in order to give them a convenient place to store meats and perishable products, strawberries and other fruits in the summer, something they can use at their own convenience. They will also be able to store blueberries.

Q. You have fishermen there? A. Yes.

Q. You are on the coast? A. Yes.

Q. Do the fishermen take part in the programme? A. Oh yes.

Q. What about cold storage for fish? A. I don't think we have come to that yet. We have not enough fish.

Q. Is there anything else you have in mind that you are planning seriously? A. Yes. Last year, 1944, through the action of the people we obtained a regional library from the Prince Edward Island Library establishment mentioned by Dr. Croteau, and we have also the A.R.P. local station which has been discontinued. The village is preparing to take that over on its own. We have a community hall which was formerly under a joint stock company. Today it is impossible for us to find out who owns it. There are no records and we are asking the present directors, who themselves admit that they don't own it, if they will turn it over to us. We intend to remodel it and move it and convert it into a community recreation centre which will also house fire equipment and provide bowling alleys and recreation space. Plans have all been laid for that.

Q. Have you plans in regard to education? A. It depends on the help of the provincial Government, but the community at the present time is making representations to have a Grade 12 high school established in the village.

Q. You have not had one before? A. No, only up to Grade 10.

Q. And that is a deficiency? A. Yes. It is a deficiency because there is only one high school that the Government supports in the Island, with the exception of a few small ones. But the big high school is the Prince of Wales College in Charlottetown and it is very difficult for farmers to support their sons in there the year around. And when they go through they won't be farmers. That is the general opinion of the community, that any young fellow who goes through that college won't be a farmer; he is going

to go on to be a lawyer, or a doctor, or a judge, or something like that. But we feel there are too many young men returning to the farms with insufficient education and we are of the opinion that we should have a high school in the village so that boys and girls could go through Grade 12. In this way they would be far better equipped as farmers to meet the problems of life.

Q. Have you anything else definitely planned?

A. Yes. In connection with medicine, we are very poorly served by doctors. The only doctor in the area, with the exception of Mount Stewart, which is a long distance away and almost impossible of access, is an elderly gentleman. In fact, he is eighty-one years of age. That is the only medical service we have.

Q. What will you do? A. We have selected a doctor but he is in the armed services. When the war is over he will be free to come to the community. There are also in contemplation, though this has not been worked out in detail, plans for the construction of a small community hospital.

Q. Have you rural electrification? A. No. We have no electrification. We approached the company in Charlottetown last winter to give us electricity up the main highway and the management promised to do the best they could for us.

Q. Through all this study and cooperative activity have the people of your community learned to trust each other? A. They certainly have.

Q. And that goes for the Irish too? A. Oh yes.

Q. I understand that you were born in the community?

A. Yes.

Q. And you have lived there all your life?

A. Yes, except for short intervals.

Q. Will you give the Commission your opinion as to whether or not all this study and cooperative development has been of benefit to the community and if so in what way. What was the relief situation in Morell around 1935 and 1936? A. It was pretty bad especially among the fishermen. At least 90 per cent of the fishermen were on relief. Of course, the farmers are better off than the fishermen and there were not so many farmers on relief.

Q. Has there been any change in that situation? I don't want to deal with the war years, but before the war started? A. Yes. Through the credit union many of the men have been able to get back on their feet, and by means of loans they have been clearing off all their debts. Some were store debts, and that would be the first thing. I don't say they have cleared them all off but they have been pulling themselves out of debt.

BY MR. PARKER:

Q. You have told an interesting story this morning and I am sure the Commission will give it proper consideration. Can we sum it up by saying that during the last seven or eight years the financial position of the people of this community has very greatly improved?

A. That is correct.

Q. I do not suppose you would suggest that all the improvement is due to the cooperative movement, or would you? A. No; I would not suggest that all of it is due to that.

Q. I suggest that in considerable part it is exactly the same as it is in many other communities, not only in Prince Edward Island but in the rest of the country: that

is to say, business conditions have improved generally everywhere, quite apart from assistance from any quarter. I am not minimizing the assistance given by the co-operative movement, but you will agree with that statement, will you not? A. Pardon me?

Q. You will agree that some of the improvement in this district, which you have been talking about this morning, is due to the general improvement in conditions everywhere among farmers, fishermen and others? A. Some of it.

Q. I am not suggesting that all of it is due to that fact, but some of it is? A. Yes.

Q. And as a result of what has been taking place there you say that this credit union has now \$30,000 on hand?

A. Yes.

Q. Of that amount how much is out on loan to members of the credit union? A. At the end of September there would be \$17,000 loaned to members.

Q. What proportion of the members are borrowers ordinarily -- a half, a quarter or two-thirds of them?

A. At the present time it would be low, between one-third and a half.

Q. Not much more than a half at the highest?

A. More than a half.

Q. But there have been many depositors who have not been borrowers at all? A. Not such an awful lot.

Q. But some? A. One is all I can remember.

Q. Every single member of the credit union has been a borrower with that one exception? A. At one time or another.

Q. For one reason or another? A. Yes.

Q. The cooperative store you are now operating in

that community is organized as a separate company under the Act? A. Yes.

Q. The cooperative does business separately and apart from the credit union and apart from the creamery?

A. Yes.

Q. And that had a turnover of \$108,000, that co-operative store. All those sales were made for cash?

A. Yes, practically all.

Q. What do you mean by practically all? A. I will explain that to you.

Q. In round figures. A. About 90 per cent cash.

Q. Why did you depart to that extent from the principle you laid down that sales should be for cash? A. We have railroad men who run monthly accounts. They receive a regular monthly cheque.

Q. Your creamery business is all cash? A. We are buying products through the farms.

Q. At what rate do you pay the farmers? A. The market price.

Q. How do you determine the market price? A. The general level of market prices in Prince Edward Island.

Q. At the time the milk is delivered? A. Yes.

Q. And you dispose of the milk? A. Dispose of the butter.

Q. At the best price obtainable? A. Yes.

Q. What do you do with the proceeds from the butter?
A. At the end of each year the profit is distributed in patronage dividends.

Q. First you deduct from gross sales the amount of advance you have given the farmers in the meantime?

A. It is put through as a complete business deal at the time we buy the cream. That is paid for and at the end of the

year; whatever is left over is distributed in accordance with the quantity of milk we bought from the farmers.

Q. Before you make the distribution you have to take operation costs into account? A. Yes.

Q. And you set aside reserves? A. Yes, those required by law.

Q. And having paid costs and set aside reserves, if you have some left over, as you always do --

A. Not always.

Q. But in years when you do, you divide that up, and when you have none left over and are a little shy, what do you do? A. We have not had that set-up lately.

Q. How do you take care of losses? A. We don't know much about the business. The year before this we had a loss.

Q. Why did you not go back to the members and ask them to make it up? A. They did not have money.

Q. Did not a lot of them have money in the credit union? A. We could not touch that.

Q. Couldn't they touch it? A. I don't think they want to.

Q. Who made up the loss? A. We made up the loss, the directors.

Q. Where did it come from? A. Our own pockets.

Q. But you were later reimbursed? A. Yes.

Q. Do you buy this milk from the farmers? Does the cooperative buy it or has it an agreement with the farmers that the cooperative will take the milk and handle it and make it into butter and give them all they get out of it? A. The cooperative buys the milk from the farmers.

Q. Do they enter into a formal agreement with the producers? A. No, it is a business arrangement.

Q. This community has greatly improved financially, you have already stated. In days gone by, however, they were unfortunate enough to have to get relief from the Government authorities. Things were pretty blue?

A. Yes.

Q. Now that they are prosperous have you any reason to suggest why they should not contribute to that very state which in times of distress helped them out of their difficulties into prosperity? A. I think they are doing that through taxes?

Q. Any more than anyone else? A. As much as anyone else.

Q. But I am referring to Dominion income tax.

A. If they are taxable they will pay it.

Q. Are you suggesting that these cooperatives, like the creamery and the credit union, should be exempt from taxation by reason of all these blessings which you say they have brought to the community? Is that your argument as to why they should be exempt. A. Those are supposed to be facts.

Q. You did not hesitate to express an opinion to my learned friend a moment ago. A. I think it is an argument in favour of our position.

Q. Even though they may in law be taxable, theoretically at any rate, you think that tax should be lighter or should be removed by reason of the good work wrought in the community. Is that your position? A. Yes.

BY MR. FRANCIS:

Q. Are the people in the Morell community, because of the cooperative movement, better able to pay any taxes that any Government might impose upon them? A. Certainly

MR. PARKER: That concludes the brief, Mr. Chairman, The representative of the province of New Brunswick is here with certain records relating to credit unions and I think we might begin, so far as New Brunswick is concerned, by having him put those records on file.

S. W. KEOHAN,

Registrar of Credit Unions
and Inspector of Co-operative
Associations,
Government of New Brunswick,
having been duly sworn,
testified as follows:

BY MR. PARKER:

Q. What position do you hold with the provincial Government? A. I am Registrar of Credit Unions and Inspector of Cooperative Associations.

Q. How long have you held that position? A. For the last six years.

Q. You have certain records relating to the formation and operation of credit unions. They are filed with you as required by the various statutes governing credit unions? A. Yes.

Q. And the same applies to cooperative associations? A. Yes.

Q. You have brought with you certain statistics and reports from your Department indicating the number and extent of credit unions and cooperatives of which you have record? A. I have a summary of that.

Q. Will you place it on the record? A. I have one with me.

Q. Referring to Exhibit "A", skeleton statistics of credit unions of the province of New Brunswick, and Exhibit "B", New Brunswick Co-operative, these two documents contain

a summary covering the years 1937 to 1944. Exhibit B is a narrative statement dealing with cooperatives?

A. Yes.

Q. Is that a fair way to describe it? A. Yes.

Q. It shows that in the year 1937 there were twenty-eight credit unions with a membership of 2,000, assets of \$35,000 and on loan \$38,000. Does that mean loans to members? A. Yes.

Q. And similar figures are given for the years from 1938 to 1944 inclusive, showing progressive increase in all columns? A. Yes.

Q. So that in 1944 we find that the credit unions have increased in number from 28 to 148? A. Yes.

Q. And the members have increased in number from 2,000 to 27,558? A. Yes.

Q. And the assets have increased from \$35,000 to \$1,744,000? A. Yes.

Q. While the loans have increased from \$38,000 to \$1,266,000? A. That is on a yearly basis for the year 1944.

BY MR. ARNASON:

Q. That is the cumulative total? A. No; that is the 1944 total.

BY MR. PARKER:

Q. The total loans handled from 1937 to 1944 inclusive amount to \$4,482,000? A. Yes.

Q. Does that mean loans to members of these credit unions? A. The credit unions can loan only to members.

Q. We have found in some cases in other provinces that they loaned to certain institutions, buying institutional bonds. A. Those are investments; we consider them investments provided for in the Credit Union Societies Act.

Q. The figures you table here do not include such investments? A. No.

Q. Have you any information as to the amount of loans made by credit unions, or the investments?

A. That is given later on in the statements.

Q. The figures I have read show that the total outstanding in members' loans is \$912,000. A. Yes.

Q. Or about 57 per cent of the assets, and \$565,000 was then invested in Victory Bonds. A. Yes.

Q. At the close of the Seventh Victory Loan Campaign the investment in Victory Bonds amounted to \$739,000 and of this amount \$22,000 was from the guarantee fund. What is that? A. Twenty per cent of net earnings must be set aside and accumulated from year to year for possible abnormal conditions.

Q. That is provided for by legislation? A. Yes.

Q. Is there anything here to show the amount of share capital in these credit unions? A. I have the report.

Q. Can you tell us what that is? A. Share capital, September, 1944, \$1,596,679.

Q. Give me alongside of that the total deposits. A. \$59,994.

Q. So that the figures show that the money which the credit unions have for loaning and for investment a great deal more of it comes from the sale of shares than from members' deposits? A. Yes.

Q. You state in Exhibit A that a more detailed analysis of one year's business, that is the year 1944, would show an increase in assets of \$602,000, of which \$565,000 was an increase in share capital; that is, share capital sold to that extent in New Brunswick in 1944 -- new share capital?

A. Technically that is what we call it. It is really savings.

Q. Don't call it anything technically; call it what it is. It is money paid into the unions in return for which they had been issued shares. A. There are no share certificates. The members have a pass book such as you have in a bank, and savings are entered there. The units of savings are \$5 and the Act denominates them shares.

Q. That is what you mean? You don't have a fancy engrossed share certificate with a red seal on it. The share is evidenced in a pass book, but apart from that it is to all intents and purposes share capital? A. Yes and no.

Q. Give us both the yes and the no. A. Credit union funds are not put in as permanent investments. They are really savings and can be withdrawn on notice of ninety days, and in practice can be withdrawn almost at will.

Q. You say that during the year 1944 credit unions loaned to members \$1,266,000. Is that right?

A. Yes.

Q. That is, 12,207 loans of an average of \$103?

A. Yes.

Q. And for an average period of seven months?

A. Yes.

Q. Exhibit B is a narrative statement dealing with these cooperative societies? A. My intention was to read that.

(Witness read the statement).

BY MR. FRANCIS:

Q. You refer to eleven cheese factories and ten creameries under that special legislation? A. Yes.

Q. I think it would be helpful in introducing the later briefs to get an explanation from you as to that legislation. Are you acquainted with these two organizations -- first of all the cooperatives? A. That is one of the associations over which we have supervision.

Q. Do you know under what legislation that association was incorporated -- that is, the Madawaska. That is the one I am talking about. A. What developed into a co-operative at Madawaska was originally a creamery which was incorporated under that special legislation, Chapter 40.

Q. After operating under the old legislation it applied for incorporation under the legislation which you supervise? A. Yes. I include this because it is generally considered that these associations are operating cooperatively, and one year after our Co-operative Associations Act was passed this fact was recognized and a special section, 10A, was placed in the Act so that if the association would file certain information with the Inspector to be placed before the Minister, the Minister could pass the order which would convert these associations or bring them under the Co-operative Associations Act. That was done in 1939 and the association took out supplementary powers after that.

Q. That is the Madawaska? A. Yes.

Q. Could we file as Exhibit 3 the amendment in reference to these old associations enabling them to become truly cooperative? A. Yes.

MR. PARKER: That is the amendment to the Associations Act?

THE WITNESS: Yes.

BY MR. FRANCIS:

Q. Are you acquainted with the Sussex cheese and butter factory? A. The Sussex cheese and butter factory is one of the associations defined in Chapter 40. At the present time we have no supervision over it.

Q. But you are acquainted with it? A. Yes.

Q. It has not been brought under the new legislation? A. No.

Q. Is your knowledge of the Sussex Cheese and Butter Company such that you know whether or not it operates in accordance with cooperative principles? If you haven't that knowledge it is all right. A. It is generally understood that it does.

Q. Do you know? A. Yes. It pays back at the end of the year a patronage dividend to its members and has always done so.

MR. PARKER: What do you mean by saying it is co-operative?

BY MR. FRANCIS:

Q. I wish to show the composition of these associations. With regard to credit unions, and referring to Exhibit A, I would like to know whether the credit union officials in New Brunswick consult you from time to time concerning income tax problems? A. The matter has not been discussed very much, but it does come up occasionally.

Q. It has been referred to? A. Yes.

Q. Do you know from your contact with the credit unions which you supervise whether or not the credit unions in New Brunswick have deducted 7 per cent share interest?

A. No, they have not.

Q. Do you know whether that problem has given them concern or not, from your conversations with their officials?

A. Yes. It has given us all some concern, the officials included.

THE CHAIRMAN: Have there been any recent developments in that connection?

THE WITNESS: No.

BY MR. FRANCIS:

Q. Speaking of the cooperatives, they do not pay income tax? A. No. They are exempt under Section 4 (q).

Q. With regard to cooperatives, let us take the form of fishermen's cooperatives. Do you know whether or not any of them pay income tax or have paid income tax?

A. Farmers' associations?

Q. Yes. A. No. As far as I know, they have not.

Q. Or fishermen's? A. No.

Q. What about urban consumer cooperatives?

A. They have been advised to follow the general practice in Canada, I believe, of paying income tax after deducting patronage dividend.

BY MR. PARKER:

Q. Who gave them that advice? A. I gave them that advice.

Q. You advised them? A. Yes, I advised them to do that.

BY MR. FRANCIS:

Q. Have they followed the advice? A. We have only four urban cooperatives. Three have been operating at a small deficit and have nothing to distribute. The fourth has taken it.

MR. PARKER: I cannot understand how they are operating at a deficit.

BY MR. FRANCIS:

Q. Don't they operate at cost? A. That answer should be qualified.

BY MR. ARNASON:

Q. I was not clear how many of the ten creameries and cheese factories came under your supervision by virtue of having taken advantage of the legislation. A. Only one has been converted. The others are discussing it.

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GORDON H. NICKEL,

Saint John Board of Trade,
having been duly sworn,
testified as follows:

BY MR. PARKER:

Q. You are appearing on behalf of the Saint John Board of Trade? A. Yes.

Q. And you have a short brief you are directed to present? A. Yes.

Q. Who sent you? A. The Saint John Board of Trade.

Q. By resolution? A. By resolution of the Council, of which I am a member.

Q. By whom was this brief prepared? A. By the Taxation Committee of the Board of Trade.

Q. How many members are there on the Saint John Board of Trade? A. Roughly 200.

Q. Mostly citizens of the city of Saint John?
A. Yes.

Q. Do you know whether there are any members of co-operative institutions among the members of the Board of Trade? A. There is no reason why there should not be but

I don't think there are any.

Q. You have not examined your membership roll?

A. I am quite sure there are not because cooperation in the city of Saint John itself is not very great and the members of the Board of Trade derive from the city of Saint John.

Q. This brief consists in the main of a resolution that was passed by the Board of Trade some time ago?

A. Yes.

Q. Was this action that you have taken before this Commission approved by the membership at large or merely by the executive? A. By the council which was appointed by the members.

Q. But did the council send back to the membership what they proposed to place before the Commission? A. May I ask what the date of that original is?

Q. The original resolution is dated August 24, 1944.

A. That was presented to the general membership in August and in the meantime there have been several general meetings at which it was presented.

Q. In so far as this brief is a quotation of that resolution it has received the support of the membership at large, and in so far as it contains something else, that represents the views of the executive? A. Of the council.

Q. Perhaps you will read it. A. It is as follows:

St. John, N. B.,
27th January, 1945.

"Royal Commission on Cooperatives,
Room 325, East Block,
Ottawa, Ontario.

"Honourable Gentlemen,

"With reference to the taxation of cooperatives, etc., the Council of the Saint John Board of Trade confirmed its

resolution of 24th August, 1944, addressed to the Hon. J. L. Ilsley, K. C., Minister of Finance, and which reads as follows:

'Whereas the establishment and operation of so-called "Co-operatives" and "Mutual" business concerns is spreading rapidly; and,

'Whereas the absorption, organization and conducting of public utilities and other businesses by municipal, provincial and federal governments is not only growing but is being advocated by some as a nationally economic policy; and,

'Whereas any federal income tax exemption or other special privilege or concession that these companies have been receiving or may in future enjoy, amounts to a subsidy equal to the tax that would have been paid by them if under private operation. This creates an inequality in the trade concerned and it depletes the national revenues to the same extent:

'Therefore the Council of this Board strongly but respectfully recommends that the Federal Minister of Finance establish the principle that all such co-operatives and government-operated concerns be treated in relation to income tax exactly the same as a limited liability company operating in similar circumstances and under similar conditions.'

"We emphasize that no objection is raised here to the existence of such enterprises, but only that they bear an equal share of taxation with similar non-cooperative concerns.

"We fully recognize the necessity, in war time, of giving the Finance Minister a very free hand, and we think

these suggestions, if followed, would materially increase the national revenue, as the taxation of cooperatives alone -- that are not now taxed -- would produce over one hundred million dollars annually, and at the same time establish equity that seems to be lacking at present.

"Respectfully submitted,

Saint John Board of Trade

Sgd.: F. Maclure Sclanders,
Commissioner."

BY MR. PARKER:

Q. I notice this resolution seems to be a resolution of the Council and not of the whole Board.

A. That is correct.

Q. When was that placed before the membership at large? A. That would not have been read in detail.

Q. It is a resolution of the Council and nothing else?

A. A resolution of the Council.

Q. And nothing else? A. This is a resolution of the Council of the Board of Trade.

Q. It is the Council that you are representing today rather than the membership at large? A. Yes.

Q. Why was it not submitted to the 200 members so that you could speak with the voice of 200 instead of with the voice of a committee? You do not know why?

A. It did not appear to us to be necessary somehow, seeing that the members at large appointed the members of the Council.

Q. To do what? A. To act for them in any matters pertaining to the Board of Trade and any representations which the Board of Trade as such might make on any subject matter.

Q. That is, the membership just had nothing more to

say about it once the executive was appointed, so that the executive could commit them to a statement of policy on public matters without going back to them? That is the way they function? A. They have quarterly meetings at which the general membership is invited and the Council explains what has happened during the previous quarter.

Q. Has this resolution ever been placed before a full meeting of the Board? A. Not since the Royal Commission was appointed.

Q. At any time? A. That I cannot say.

Q. Was any resolution ever passed by the members at large instructing the executive to come before this Commission to present any views? A. Not by the members at large.

Q. At the bottom of page one they state "that all said cooperatives and Government-appointed concerns be treated in relation to income tax exactly the same as a limited liability company operating in similar circumstances and under similar conditions." Do you know or have you considered just what that means? Do cooperatives operate "in similar circumstances and under similar conditions" to private companies? What do you mean by that?

A. Here is my view --

Q. I want you to tell us not so much your personal views, valuable as they may be, as the views of the Saint John Board of Trade. What do they mean by it?

A. They mean that, shall we say, a retail store operating in Saint John, selling to all-comers, is in exactly the same position as a retail store that is owned by shareholders under Dominion or provincial companies' acts selling to all-comers.

Q. Are there any such in Saint John? A. Yes.

Q. Name one cooperative in Saint John.

A. There are two cooperative stores to my knowledge.

Q. Name them so we can find out about them. Can you give the name of one? A. No, but I know of one that is called a cooperative store. It is in the north end and there is one in the central part of the town.

Q. General stores or groceries? A. I am not sure. I know however that there are retail cooperative stores in Saint John.

Q. Retailing what -- groceries, hardware, or what? A. Groceries chiefly.

Q. Do you know their method of operation and how they buy their supplies? A. No.

Q. Then how can you say they operate the same as a limited company? A. Their doors are open for trade the same as anyone else and anyone can go in and buy.

Q. On the same terms? A. Yes.

Q. How do you know they are on the same terms? A. That is general knowledge.

Q. General is a wide word. I did not know it and I doubt if the Commissioners know it. What do you mean by that? We want to be realistic and get down to brass tacks. It is no use saying that such and such a thing is generally known; that does not mean much. A. The best way to get an answer to that would be to inquire from the cooperatives themselves.

Q. If you say you can't answer the question I will not pursue it. You say: "We fully recognize the necessity, in wartime, of giving the Finance Minister a very free hand, and we think these suggestions, if followed would materially

increase the national revenue." Will you tell me what in the world you base that on? How much increase would that bring to the national revenue, and where did you get the figure you mention in this same paragraph of \$100,000,000 annually? Why did you not say one hundred billion? Where did you get that figure? Do you know?

A. No.

Q. As far as you are concerned it is a wild guess?

A. Personally, yes.

Q. Do you know where the Board got the figures?

A. No.

Q. Who prepared the brief -- you? A. No,

Mr. Sclanders, the Commissioner. Mr. Whitmore is Chairman of the Taxation Committee.

Q. And they are not here to say where they got that figure of one hundred million dollars? A. No.

THE CHAIRMAN: Was that in a press report coming from Calgary?

THE WITNESS: It must have been got from the same source.

MR. PARKER: Unofficially, I understand it came from the Financial Post.

BY MR. ELLIOTT:

Q. The proposal of the Saint John Board of Trade is double-barrelled; that is to say, that public utilities and other conveniences now owned by governments should be taxed, and also that cooperatives should be taxed.

Provided the Commission should find it impracticable to make recommendations concerning governmentally-owned institutions, would the Saint John Board of Trade be favourable to separating these two barrels? A. Most certainly.

Q. Favours the governmentally-owned businesses as compared with the cooperatives? A. Yes. We would make three pistols out of the triple-barrelled shot gun.

Q. The figures are not tied together? A. No.

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C. K. BEVERIDGE,

Chairman,
Insurance Agents Association
of Saint John,
having been duly sworn,
testified as follows:

BY MR. PARKER:

Q. You appear in what capacity? A. I am Chairman of the Agents Association of Saint John. It is the Association of Agents in New Brunswick.

Q. What kind of agents? A. Insurance agents, excepting life.

Q. Fire, casualty and everything except life? A. Yes.

Q. What sort of Association have you? A. We have an Association of Agents, not very active, where the agents get together and discuss matters of mutual interest.

Q. It is not an incorporated body? A. No; it is just a group.

Q. How many members have you? A. Approximately 30.

Q. That is the whole province? A. The city of Saint John and agents in the province to the number of 100 or more. But I am thinking of the association of Saint John.

Q. On whose behalf are you making representation -- on behalf of the 30 or the 100? A. All of them.

Q. How did you get authority to speak for them?

A. We sent around a recommendation to the different towns and they signed it.

Q. How many signed? A. Approximately 30.

Q. You got no response from the other 70?

A. We could not get in touch with all. We had only a short time in which to make the brief. We have a lot of country agents and it would be impossible to get them all to sign. We signed the larger agents in the larger centres.

Q. How many responses did you get? A. They all responded that we got in contact with.

Q. This copy I have hasn't got the signatures.

A. It is signed in the brief submitted.

THE CHAIRMAN: This is only a preliminary statement.

THE REGISTRAR: That is all that is filed.

BY MR. PARKER:

Q. Will you read the brief. A. I will. A meeting of the agents representing joint stock insurance companies, at which I was appointed chairman, was held in Saint John on January 5 of this year and the principles outlined in the following brief were agreed upon.

The brief reads:

"Preliminary Statement on behalf of the underlisted insurance agents of the province of New Brunswick representing joint stock insurance companies carrying on in Canada on the cash plan the business of fire, automobile and casualty insurance.

"1. It is submitted on behalf of the group above mentioned that as income tax payers, their respective tax burden is higher than it otherwise would be if the organizations commonly known as mutuals and cooperatives contributed their

share of taxes under the War Income Tax Act and the Excess Profits Tax Act.

"2. It is submitted on behalf of the group above mentioned that in their capacity as agents, their field of endeavour is circumscribed because of the fact that their principals, viz., joint stock insurers, are at a grave disadvantage in competition for business because of the preferential position that the competitors of their principals, viz., mutual and reciprocal insurers are placed, by virtue of their exemption from taxation under the two aforementioned acts.

"3. This is a preliminary statement only, as requested by the Commission, and may be enlarged upon when the Commission has ascertained further facts as to the methods of operation of mutual and reciprocal insurers, and we reserve our right to make further representations when such information is available."

.....

BY MR. PARKER:

Q. Do you intend to come before the Commission later on? A. I understand the companies which we represent have already submitted an exhaustive brief to the Commission on the whole set-up.

Q. But does your Association want to be heard again? A. No. That is our final brief.

Q. What do you mean in the first paragraph where you say "if the organizations commonly known as mutuals and cooperatives contributed their share of taxes under the War Income Tax Act and the Excess Profits Tax Act." What have you in mind as being their share? A. The same way as the companies have to pay on excess after our standard is taken. We want them on the same basis.

A. It is a matter of opinion whether they are; they operate in the same field as we do.

Q. Have you knowledge on that question? Do you know whether they are or are not different? A. I can't see where they are any different after thirty years' experience. They collect dividends.

Q. Have you studied the way the mutual fire insurance companies operate? A. Yes.

Q. Don't they operate in an entirely different way? A. It comes to the same thing.

Q. Do they not operate differently? A. It means the same thing in principle, to my way of thinking.

Q. Have you looked into their organization, the capital structure and method of doing business of the co-operatives? A. Not cooperatives; it is mutuals and reciprocals we are dealing with.

Q. But you are referring here to cooperatives paying their share. A. Do we say so?

Q. That is what is stated in the brief I have. Do you want that struck out about cooperatives? A. We have no dealings with cooperatives.

Q. Why does that appear in the brief? A. I did not prepare the brief.

Q. Who did? A. The committee.

Q. You approved of it? A. Yes.

Q. You were one of the committee? A. Yes. I don't know much about cooperative insurance, I admit that.

BY MR. ELLIOTT:

Q. Are the agents you represent incorporated or unincorporated? A. No; they are individuals.

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W. H. McEWEN,

General Manager,
The Canadian Livestock
Co-operative (Maritimes),
having been duly sworn,
testified as follows:

BY MR. FRANCIS:

Q. You are the General Manager of Canadian Livestock Maritimes? A. Yes.

Q. How long have you been employed by the Company? A. Since 1931.

Q. Will you explain to the Commission how this brief was prepared, under whose authority and in what manner? A. Under the authority of the Board and with the cooperation of the Co-operative Union Committee of New Brunswick.

Q. Has this brief been approved by the members of your Board? A. Yes, all the Board.

Q. Have you been authorized to present it to this Commission on behalf of the Board? A. Yes.

Q. For the purposes of the record, I understand that when you were nineteen you took up a homestead in Alberta? A. Yes.

Q. You acquired considerable land there and farmed there for ten years? A. Yes.

Q. And you acquired a knowledge of farming practices in the province of Alberta? A. Yes.

Q. After ten years of farming I understand you left the farm to attend the University of Manitoba? A. Yes, the Agricultural College.

Q. And you completed your degree work in 1926? A. Yes.

Q. What degree do you hold? A. Bachelor of Science Agriculture.

Q. From the University of Manitoba? A. Yes.

Q. When you finished your University course what position did you take? A. I went to the Manitoba Wheat Pool.

Q. How many years were you with the Manitoba Wheat Pool? A. Four years.

Q. During that time did you have further contact with the Manitoba Agricultural College? A. Yes.

Q. What was that? A. For two winter periods the college was open and I had leave of absence from the Manitoba Wheat Pool to substitute in the Economics Department.

Q. As instructor? A. Yes.

Q. You served as instructor in the Economics Department of the Agricultural College? A. Yes, under those conditions.

Q. When did you first come to the Maritime provinces? A. In 1930.

Q. In what capacity? A. I was employed by the Canadian Co-operative Wheat Producers Limited to promote the sale of coarse grains in eastern Canada.

Q. Why was that service withdrawn, or has it been withdrawn? A. Yes. It was withdrawn within a year because of the financial difficulties encountered by the pools at that time.

Q. Was that when you came into this organization that you now represent, after you terminated your services with the Canadian Co-operative Wheat Producers? A. Yes. Before that we were cooperating with the same organization.

Q. But then you came into the employ of C.L.C.? A. Yes.

Q. In what capacity? A. In the Feeds Department.

I don't know whether I had the official title of salesman but I was promoting sales in the Feeds Department.

Q. When did you become Manager of this organization?

A. In 1932.

Q. The following year? A. Yes.

Q. When did you become General Manager? A. 1937.

Q. When you set up the Department? A. Yes.

Q. And the business has grown a great deal since then? A. Yes.

Q. Will you proceed with the reading of the brief, Mr. McEwen. A. Yes. The brief reads:

"The Canadian Livestock Co-operative (Maritimes) is taking the responsibility of presenting this brief on behalf of its cooperative members and patrons and we furnish herewith some information in relation to its constitution and operational practices.

"The organization is a general purpose marketing and commercial cooperative with a federal charter. Its members are in the maritime provinces of New Brunswick and Nova Scotia.

"These members may be either individuals or groups, such as agricultural societies, shipping clubs, cooperative societies or federations of these societies. The members may be either rural or urban groups but are mainly rural.

"The organization, C. L. C. as it is commonly called, markets livestock, poultry and seeds and acts as a supply house for its members for such goods as feeds, fertilizers, seeds, insecticides, groceries, etc. The C.L.C. belongs to its members scattered through these two provinces. It furnishes centralized strength but is controlled by the patron members.

"History:

"Livestock shipping clubs were first organized and given business direction by Dominion Department of Agriculture fieldmen -- one in each Maritime province -- from 1919 to 1927. Representatives of these clubs were brought together to a meeting in the City Hall, Moncton, N. B., March 9, 1927. At this meeting, it was decided to organize a 'Maritime Shipping Association'. The Association, when organized, became the Maritime Livestock Board.

"At this meeting A. A. MacMillan, representing the Dominion Department of Agriculture at Ottawa, recommended organizing under the Canada Companies Act and said that he had recommended to his chief, the Deputy Minister of Agriculture, that if the organization was set up as a cooperative that a grant of \$1,000 would be given annually for a number of years to help the 'Board' get on its feet, and that this assistance would be continued as long as was needed. These grants were discontinued on the request of the cooperative after May 31, 1938.

"Charter:

"The original letters patent were issued under provisions of Part Two of the Canadian Companies Act of 1917, dated March 7, 1927, in the name of the Maritime Marketing Board.

"Change of Name:

"The name was changed by Supplementary Letters Patent 1931 to Canadian Livestock Co-operatives (Maritimes).

"Constitutional Changes:

"Additional Supplementary Letters Patent were granted in 1934. A copy of constitution and by-laws as at 1934 is filed as Supplement No. 1 to this brief.

"Objects:

"The objects as outlined in the Constitution contain the following:

"(a) As desired, to engage in the cooperative buying or selling of feeds, flour, seeds, insecticides, rope, twine, tools, fertilizers, and any other goods or machinery used in the production, processing, or manufacture of farm or other primary products, and to buy or/and sell raw or manufactured goods or do general merchandising or operate any other services intended to assist the members of the cooperative in the conduct of their business, home or community life.

"(b) To encourage the production of livestock and farm products of a type and quality suitable for the market, to sell, when possible, such products according to grade, and to market these products handled by the co-operative where, when, and in a manner believed most advantageous to the members.

"Membership:

"The Constitution states that membership in the co-operative shall be in two classifications: (1) individual membership and (2) local, club or district membership.

"Operating Funds and Disposition of Surplus:

"K1 of Article 13 of the Constitution provides for the marketing charges for livestock and K2 for powers to make repayable deductions from the proceeds of sales. Clause (L) of the same article outlines the responsibility of the organization in providing the member with sales statements and (M) provides for the disposition of any surplus that might accrue from the operation of the business.

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"Method of Financing:

"Funds for operating are obtained by:

- "(a) Fee for marketing livestock or other products.
- "(b) Manufacturing charges and mark-up of supplies sold.
- "(c) Repayable Reserve 1 per cent -- see (k) 1 of by-laws."

Article 13 was referred to above but it might be well to make that note there. Continuing:

"(d) Deferred patronage dividends (surplus allotted on a patronage dividend basis but retained with the approval of the members for a period of time and used as operating capital.)

"Reorganization:

"In 1941 application for additional Supplementary Letters was made but the Secretary of State's Department at Ottawa advised that a new charter should be obtained to support present and objective activities of the organization. This advice was followed and in 1944 a charter was obtained in the name of Maritime Co-operative Services Ltd. This new organization is to take over the business after May 31, 1945. (A copy of the constitution and by-laws of Maritime Co-operative Services Ltd. is filed as Supplement No. 2 to this brief.)

"This new charter provides for the distribution of surplus on a patronage basis after expenses and stated reserves are provided for.

"The Commission Inquiry:

"The terms of reference of the inquiry have three divisions a, b, and c.

"Present Position:

"Briefly (a) refers to the present position of co-

operatives in the matter of income tax and this is answered by the confusion and lack of clarity of the cooperatives' position that led to the presentation of the petition by the Co-operative Union of Canada to a Committee of the Federal Cabinet at Ottawa, July 12, 1944. In that brief a clarification of the tax position of cooperatives was requested.

"In reference to the tax position of the Canadian Livestock Co-operative (Maritimes) in relation to the Income War Tax Act and Excess Profits Tax Act, 1940.

"Income tax returns have been sent annually to the Inspector of Income Tax, St. John, since the founding of the organization. There has been no tax levied as it was understood since 1930 that Clause 4 (p) of the Income Tax Act relieved the organization of responsibility in this matter.

"While no assessment has been made, interpretations and rulings of the Income Tax Department applied to other cooperatives in the last few years removed any feeling of confidence that a tax would not be imposed on savings and might be made retroactive to cover many years.

"There was also the consideration that the Canadian Livestock Co-operative (Maritimes), (Maritime Livestock Board), too over marketing work which had been started and financed by the Dominion Department of Agriculture from 1919 to 1927 and, as referred to elsewhere in this presentation, the Dominion and provinces continued assistance until 1938. The cooperative has provided all its services since that time out of service charges for marketing and mark-up over cost on goods supplied.

"Business Methods:

"The terms of reference Clause (b) refer to the organization and business methods of cooperatives.

"The motive and methods of operation of cooperatives are, and must be, fundamentally different from those of competitive business or there would be no justification for the cooperative movement's existence.

"The cooperative is not an organization of tradesmen dealing with the general public but is one deriving its authority from the individuals who use its goods or services.

"In practice the C.L.C. Central Office has had many requests to set up some service for a local group. Such a request is consistently refused. The group must take the responsibility for establishing and maintaining its own service and for any help that is extended from outside. When that responsibility is assumed then C.L.C. (Central) may assist. This method tends to decentralize control of industry or service to the limit of the ability of each local group to operate its own. The groups combine with others only to do things beyond their local ability.

"A cooperative association is organized to render some particular service or services to its members. In performing such services there are well-established rules that the business shall be non-profit in character, and that the control shall be democratic and always retained in the hands of the members and that invested capital shall be accorded only a nominal rate of interest, if any at all.

"There are other rules important to the cooperator, but not so pertinent to this inquiry as the particular one relative to being non-profit in character. It is this

non-profit issue that is being challenged and is the heart of the question now under investigation.

"To illustrate the difference in motive and effect of the operating principles of profit vs non-profit business we reproduce here the table of profits and taxes as contained in the Bank of Canada Report on 665 business firms for 1943 as published in the Financial Post of October 28, 1944.

Profits in Billions:

Earnings of 665 companies - 1936/43 (millions of dollars)

	1936	1937	1938	1939	1940	1941	1942	1943
Net operating profit	392	476	410	488	619	763	838	799
Add. Invest. & other non-operating income (net)	47	50	48	44	40	43	37	38
Less depreciation (2)	108	117	114	122	147	177	201	193
Bond Int. (incl. Exch. & amortization of discount (3))	52	52	49	49	49	38	47	43
Net profit (1)	279	357	295	361	463	581	627	599
Less income & excess profit tax (exclusive refund portion)	49	62	53	73	175	271	314	307
Net income to stockholders	230	295	242	288	288	310	313	292
Less: forced saving (refund portion) of excess profits tax							19	32
Net income available for dividends (1)(3)	230	295	242	288	288	310	294	260
Net income paid out in cash dividend	185	219	234	223	223	223	209	196
Undistributed income (exclusive forced saving)	45	76	8	65	65	87	85	64

The highlights of this table are (for eight years)

Net operating profits \$4,785,000,000.

Net income to stockholders, after income and excess profits taxes \$2,258,000,000.

Net income and excess profits taxes for eight years
\$1,304,000,000.

"The Financial Post listed the table under the headlines, 'Company Profits Drop 6.7 per cent.'

"Now keep in mind that those profits were made under two general conditions. (1) The first in years when a great percentage of the people were on direct relief and, (2) the last in years when the whole effort of the country should have been devoted to the war effort.

"Even in the most favourable light from the standpoint of the general welfare, the people paid \$4,785,000,000 more than it cost to supply the goods and services in eight years in order that the government obtain about 1-1/3 billions in taxes, much of which had to be used in those first years to keep people alive who were on relief. The public was taxed almost five billion, the government got over one billion of that.

"Co-op. Method:

"The cooperative method of disposal of such surplus is to apportion it back to the people pro rata to their purchases. To have done that with the profits in the table above in the depression years would have given those tremendous sums, which were taken as profits, back to the people who created them and whose spending keeps the wheels of industry going. Disposed of that way, they would have increased the people's wealth or wealth-creating ability, and the wealth of the people is always the source from which all taxes come regardless of how collected.

"Savings not Profits:

"U. S. Secretary of Agriculture, Claude A. Wickard, as quoted in the Co-operative Builder, Superior, Wis., November 23, 1944, said when speaking to the Wisconsin Farmers' Union in the fall of 1944:

'The true cooperative is not organized to make profit and therefore cannot be subject to a profits tax. Patronage refunds based upon the amount of business done with the co-op cannot be put in the same class as profits made from an investment in a corporation. Let me illustrate by saying if two people pooled their purchases in order to get a reduction in price, they would not be making a profit; they would simply be making a reduction in the cost of their purchases. The same two people might then pool their product for sale in an effort to cut down the cost of marketing. Again they would not be making a profit, but would merely be realizing a better price for their products because of reducing their cost of doing business. However, if these same two men would enter into a partnership or a corporation to buy and sell other people's products, they unquestionably would be in the business for making profits from their investment and effort.'

"Legislation Disabilities:

"It will be noted that, while there are clear-cut principles involved in cooperative organization, many co-operatives have had to begin their operations under legislation framed to regulate business with different objective or motive, and have had to operate in a business field already dominated by that other type of business.

"This has meant that cooperatives have usually had one or more of the following obstacles to contend with in the operation of their business:

"(1) Legislation under which their operating charter was obtained was not designed for, nor suitable for, the fulfilling of all the principles of cooperative organization.

"(2) Business customs of long standing which have become habit on the part of the individuals and which are at variance to cooperative principles.

"(3) The position of some cooperatives under their operating license which requires them to serve non-members.

"Provincial Co-operative Associations' Acts have been obtained in the Maritime provinces only within the last ten years.

"Result of Disabilities:

"Because of these disabilities, cooperators have sometimes been forced to, or sometimes deemed it necessary to, forego certain desirable principles in order to obtain a charter in the first place. They have had to work with members who in the beginning were more familiar with competitive business methods than cooperative. They may have had to service non-members under the law, but in spite of these considerations, cooperators have not sacrificed their principles and every year finds old organizations improving their cooperative position by re-organizing under legislation more in keeping with co-operative motives. They are found adopting by-laws and business practices more purely cooperative. The motive of non-profit business (service and democratic control by the members) is gaining ground as the cooperative movement is better understood by the people.

"Price Making:

"This Commission is concerned to a large extent with the study of business profits, as in private business and cooperative business surpluses. There is one operating method common to cooperatives that has a very important bearing on surplus, that is the Rochdale practice of

charging usual prices.

"Patronage Dividends:

"This pricing method was adopted in order to provide a margin of safety and to keep in line with other business and not unduly disturb customary prices, but can only be tolerated by the cooperator if a second Rochdale rule is also followed, i. e., the allotment of surplus, if accrued, to the patron members on an equitable patronage basis. It should be realized that to legislate that co-operative business surplus accumulated under this 'usual price' custom must be taxed before dispersal could only result in the really disturbing method of pricing the goods or services at cut rates as near cost as possible.

"Comparative Positions:

"The third division (c) of the terms of reference of the inquiry is concerned with the comparative positions of cooperative and private business. We will submit our comparison in a setting of actual experience and in respect to those cooperative services the members of our organization are building for themselves.

"Livestock Marketing:

"For the most part the background which led to co-operative livestock marketing has reposed in that atmosphere where the primary motive of the trader was profit making.

"Let us look more specifically at these developments as recorded in document or experience.

"In the early 1930's livestock prices no matter by whom sold were insufficient to give the farmer a return equal to the labour expended in production. Drovers activities were extended due to trucks and road improvement.

Cooperators were warned that the drover method of marketing was not the best for the farmer.

"Later events bore out this warning. In 1935 over 5,000 hogs were marketed alive by drovers in New Brunswick through channels where a federal grade was applied. Only about 13 per cent graded in the two top grades -- A's and Bl's.

"The cause of this low grading was largely the competition between the drovers. Each feared that if he left the pigs on the owners' farms until grown to proper market weights that a competitor would get them so a favourite drover argument was that the market wanted a light hog. The result was that a very big percentage graded light thereby taking a deduction in price of \$2.50 per head and the product being unsuitable to process for export bacon.

"The situation became so bad that a committee was set up under government and cooperative leadership to work out a solution.

"The policy submitted by this committee covered (1) desirable production improvement methods (2) organization on the part of the producers for cooperative shipping (3) a premium to be paid to the producer for hogs grading A's and Bl's by the provincial Departments of Agriculture (4) cooperative selling which insured direct producer control and guaranteed that quality premiums would get back direct to the farmer.

"The first period of operation after this policy became effective covered four months of 1936 when about 2,000 hogs were marketed, mostly from the same territory from which had come the drover hogs a year before.

They graded over 60 per cent A's and B1's.

"Government Departments Help:

"In the years following, conditions and returns have improved greatly under the combination of cooperative marketing. Provincial assistance to the farmers based on quality, and federal aids under war production policies and much, though not all, of the unsatisfactory differentials in price as between Maritime and Central Canadian Markets have by this combination been eliminated.

"True that the bettering of conditions has been assisted by government policies in the production field but government policies have in turn been materially assisted by having a producers' organization doing the marketing that was also interested in improving the lot of the farmer rather than making profits out of him.

"It was noted that New Brunswick hogs marketed by drovers in 1935 graded about 13 per cent A's and B1's (the two top grades). It will be interesting to note the grade record for hogs marketed cooperatively since that time.

<u>Year</u>	<u>A's & B1's Nova Scotia</u>	<u>A's & B1's Carleton Co., N.B.</u>
1939	72.5	78.1
1941	73.8	82.2
1943	76.2	82.1

(Note: Many of the drover hogs had come from Carleton Co., N. B., in 1935.)"

That was when the grading was 13 per cent. Continuing:

"Government Departments of Agriculture have worked closely with the co-op. in this improvement and marketing work, indeed the help has been reciprocal, but why should helpful policies or attitude from governments be questioned.

It will be a sorry day for Canada when, or if, the government elected to protect the people's interests became a party to, or stands aloof awhile, the producers fail to receive a fair share of the income of the country.

"People Pay Profits or Taxes:

"This presentation may have more argument relative to cooperative marketing as a method than with the tax question, but what we are endeavouring to show is that one branch at least of farming was threatened with ruin but by cooperative action it was possible to give it new hope and life.

"Lamb Marketing:

"The following is the story of the first cooperative lamb marketing in 1920 and this story can be verified.

"The main buyer at that time in Eastern Nova Scotia was a private company. Each year their man would be in Cape Breton or Antigonish and would have an agent or agents lined up in each shipping district, whose job it was to contact the farmer shippers and get their lambs.

"These agents apparently had another important job, i. e., to impress the farmers with the idea that the market was very bad and they (the agents) weren't sure yet whether their company would buy the lambs or not and if they did buy the price would have to be low.

"In this way the farmer with no organization of his own to get reliable information through to him on markets approached shipping day wondering if he could sell at all and ready to take any price offered him.

"Thus in 1920 events progressed through those stages until 5 cents per pound was suggested early in the season and this was modified upward on the farmers' 'Hard bargaining' to around 6 to 7 cents per pound at the shipping point.

"The first cooperative shipment went out in the same time period and netted back 12 cents per pound to the farmer shipper. The price at Montreal had been reasonably consistent. It was not a fluke price or payment. The market warranted that return.

"The experience of those early days was that lambs in Eastern Nova Scotia were being bought by the buyers' agents at from \$1.50 to \$3.00 per head in most cases where similar lambs brought \$4.00 to \$8.00 per head in Central Canadian markets. Hog prices too were out of line so that it was customary for farmers to receive about the same price per pound for dressed hogs as the Montreal market was paying for live hogs weighed, fed and watered. This would amount to a difference of about 3 cents per pound.

"Co-ops. Strive for Improvement:

"In recent years the cooperatives, with active field cooperation from the Provincial Departments of Agriculture of Nova Scotia and New Brunswick, have pioneered and applied policies to improve grade and general quality. These policies have incorporated rail grading for meat improvement, treatments for elimination of parasites to improve quality and economy, and wool grading to improve quality and returns for that by-product of the sheep industry.

"The following table illustrates meat quality improvement: (From figures compiled by Nova Scotia Department of Agriculture)."

If I may digress for a moment, it was this same committee that suggested improvements in hog marketing that worked out plans for getting on to the real grading basis for lambs.

MR. FRANCIS: I suggest that you refer to the chart at this stage.

THE WITNESS: The chart, inserted in the next two pages, shows the volume and quality of dressed poultry for the years 1934 to 1944 inclusive, that is, eleven years. Those of you who have the chart before you will see a very marked rise in quality as well as volume, going from 25.5 per cent milk-fed grades in 1934 to 86.4 in 1943, and then there is a recession to 64.8 in 1944, but that recession is taken up in the next grades, which are A and B grades. A and B grades are more constant. The extreme benefit is in the best grade and the decline in the low grades. In the C and D grades, you will see, it is 41.5 in 1934 and in 1943 it is 8.1 and in 1944, 9.4. You will see that the volume progressed from a little over 9,000 pounds in 1934 to 912,000 pounds in 1944. Having in mind the effect of the war years, you will take notice that there are five years showing the same type of progress on which the war could have no effect.

THE CHAIRMAN: I think this would be a good point at which to adjourn.

The Commission adjourned until 2.00 p. m.

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The Commission resumed at 2.00 p.m.

MR. FRANCIS: Will you continue with the brief where you left off?

THE WITNESS: I was discussing the chart showing the volume and quality of dressed poultry from 1934 to 1944. I will now continue from where I left off on page 10:

"Nova Scotia Lambs Rail Graded.
1939 to 1943.

	No. Head	[%] A & B1	[%] C & D
'39	990	47.3	49
'40	3240	64.2	31.5
'41	4877	78.1	16.8
x '42	4124	89.0	10.6
x '43	6205	79.0	21.1

x Figures based on 100% A, B, C, & D's without bucks

Marketing Dressed Poultry (Nova Scotia): Organization of Poultry Producers Pools for cooperative marketing began in Antigonish County in 1933. The volume of Nova Scotia dressed poultry being marketed before, and at that time, was small. It was ungraded, with good and bad jumbled together, so that it was not popular and furnished little effective competition to imports of graded product coming into the province (100 cars in 1933). Indeed, the local product had not earned the respect of the trade. In fact the trade refused to cooperate with the Department of Agriculture in a proposed program of improvement. The attitude was summed up by one large operator, who said, 'Nova Scotia dressed Poultry was no good and never would be'.

"It was in that setting that the Nova Scotia Department of Agriculture began its production program for volume,

grading, uniform pack, etc., and the cooperative entered the picture as selling agency for the poultry pools. These pools were operated by old members (Cooperative Societies) of the C.L.C. or by new organizations set up for this purpose.

"The story since, is recorded in a chart prepared by the Nova Scotia Department of Agriculture. (Copy attached). This chart shows over 9,000 lbs. marketed cooperatively in 1934, of which 41 per cent fell into the two bottom grades, and over 900,000 lbs. in 1944 with only 9.4 per cent in those bottom grades. Money gains show an average of about 6 cents per lb. in addition to quality improvement. The people can, and will, do the job for themselves, if given guidance and leadership. The Department of Agriculture and the cooperative helped the people in this case, while the trade declined responsibility.

"Feeds: While the first purpose of the Canadian Livestock Co-operative (Maritimes) was the marketing of livestock, the farmer members soon requested their central office to see what could be done in the matter of purchasing production supplies such as feeds and fertilizer, as there was evidence of large trade margins in handling these supplies similar to those found in the marketing of their livestock.

"In feed buying gains were made in two ways. 1st, by savings on mark-up or margins and 2nd, on transportation.

"Savings: In 1931 the cooperative farmers of Nova Scotia organized a cargo of feeds to be assembled at Fort William and Montreal and transported by boat to Maritime points. The feeds so transported were delivered to the farmers at savings in mark-up and transportation costs ranging mainly from \$8.00 to \$20.00 per ton,

with cases even above that.

"To illustrate, let us refer to the first shipment to the Skye Glen Livestock Shipping Club in Cape Breton the fall of 1930 which included over twenty tons of flour (400 bags) at a net saving to the farmer members of \$1.00 per bag in relation to local prices. One year later, the same club with over five hundred bags of flour in a shipment saved for themselves over 90 cents per bag. There were large savings on other lines too. On Oilcake Meal these amounted to 50 cents per bag or more on first shipments to farm clubs, and 75 cents and \$1.00 per bag were common. Material savings were made through the general list of feeds.

"Freights: Rail transportation from Fort William to Eastern Nova Scotia at that time cost 57 cents or more per hundred weight and these rates were reduced to 36 cents a hundred weight to water competitive ports in 1932 after the cargo movement as initiated by the cooperatives with respect to feed threatened to become general practice. The rail rate now is at least 12 cents a hundred weight less than when the cooperatives first feed shipment was made by water in 1931. With such costs and margins for handling imposed upon the production materials of the farmer Maritime agriculture was a declining industry in many areas.

"Fertilizer: The cooperative purchasing of fertilizer in the Maritimes gives a further example of the necessity for cooperative action in obtaining production supplies without the undue tolls being imposed by profit business.

"The first important cooperative buying of fertilizer of which we have knowledge in the Maritimes was started by

Agricultural Societies United in New Brunswick in 1914. That organization (a federation of societies) reported a rapid growth so that in the late 1920's and early 1930's it was distributing to its members about fourteen thousand tons of fertilizer chemicals yearly and up to that time the manager reported that nearly one hundred thousand dollars had been returned to the members as patronage dividends and that prices had been reduced from ten to fifteen dollars per ton in the initial years.

"Other cooperative distributors of fertilizer, i.e., Pictou and North Shore United Farmers' Ltd., Pictou, N.S. and the Canadian Livestock Co-operative (Maritimes) Moncton had early experiences of costs and savings that corresponded with those of the New Brunswick organization but savings were by no means confined to early years.

"Let us illustrate by one year's experience:

"In the spring of 1939 Pictou and North Shore United Farmers Ltd. and C.L.C. worked together to purchase a cargo of superphosphate and basic slag. This was imported from Europe. The discharge ports were Mulgrave, N.S. and Pictou, N.S. The contract price of the superphosphate f.o.b. Steamer at Maritime ports was \$11.35 per short ton. Delivery expense and operating margin varied with the distance from the port but did not increase the cost to the farmer to exceed \$14.50 per short ton f.o.b. farmers station within the Pictou organization area.

"The C.L.C. operated on the basis of the fertilizer companies list to dealers and rebated savings. This was \$18.00 per ton list, and \$3.20 per ton rebate f.o.b. farmers station.

"The rest of the story is that the fertilizer companies list in January 1939 was published with superphosphate at

\$21.00 per ton. This was reduced in two steps to \$18.00 after the co-op. costs became known. There were about 3,000 tons in the coop. cargo but the price effect extended to most fertilizer distributed in the Maritimes. Fertilizer it will be remembered is a production material to the farmer.

"Other Activities: The Canadian Livestock Co-operative (Maritimes) operates other services. These services have been established on the instruction of the members. We feel that it is not necessary to take the time of the Commission going into details relative to each department as the stories would be of the same nature in each case."

We have departmentalized so that each department is operated as a service so far as our records are concerned.

"The success of any democratic organization rests heavily on the education of the people involved. The C.L.C. has endeavoured to furnish information to its members so that they may build their own institutions wisely.

"Information that is as complete as possible and containing the whole truth as known is supplied. There is no incentive to withhold information that would affect their welfare. There is no reason to exaggerate, to deal in half truths or play on the emotions because there is no profit motive. The members ask that information be supplied to them and they vote their own moneys to cover the cost.

"Royal Commissions: This Royal Commission on Co-operatives has already had presented as evidence, the resolution re cooperatives, passed by the United Nations Conference on food and agriculture. We again direct attention to that and also now to reports of other investigating commissions. Six Federal or Provincial Royal Commissions have investi-

gated Maritime economic conditions, including Agriculture or Fishing since 1925. Extracts from all of these reports are appended (Number 3) to show their findings in particular reference to cooperation. As an example, we quote here from the Report of the New Brunswick Committee on Reconstruction -

1944 - Norman A. W. Mackenzie - Chairman.

Page 39

Legislation for Cooperative Organizations

'It is recommended that the Canadian Government be urged to enact a Cooperative Act setting forth clearly the principles and rights of cooperative organizations.

'Cooperative enterprises have played an increasingly important role in the development of New Brunswick agriculture during the past two decades. It is essential for the future welfare of the industry that the continued development of such organizations be in no way impeded. Wartime conditions have brought to light certain questions regarding the rights of cooperative organizations. Dominion legislation is needed to clarify the situation and to provide an established basis on which cooperatives can build.' "

MR. FRANCIS: I have discussed this with my learned friend and I think it would save time if I were permitted to summarize briefly the reports of the other six Commissions and all the materials available for reference at the end of the brief. At the back of the brief you will find a summary of the legislation which is marked No. 3. Mr. McEwen has already referred to the report of the New

Brunswick committee on reconstruction under the chairmanship of Mr. MacKenzie, and the Royal Commission in reference to the apple industry in Nova Scotia, 1930. I would call attention to the second paragraph. After recommending that a cooperative company be set up, that Royal Commission recommended: "2. That the object of the company be:

(a) The marketing on a cooperative basis of the apples grown by the company's members. (b) The manufacturing and marketing on a cooperative basis of products from such fruit." Turning next to the Royal Commission on Maritime claims, which sat in 1926 under the chairmanship of Sir Andrew Rae Duncan, I direct the attention of this Commission to the second paragraph and the second sentence: "It is the less necessary for us to deal at length with this subject, since the evidence convinces us that opinion within the Maritime provinces is now realizing to what extent organized distribution and cooperative marketing must be developed if the industry is to enjoy the prosperous expansion of which it is capable." On page three you will find a reference to the report of the Agricultural Inquiry Committee, 1926 as taken from the Journals and Proceedings of the House of Assembly of Nova Scotia. I quote from the eighth line: "Cooperative marketing will bring about high quality in farm products." Then in the same report under the heading "Cooperative Effort" I would direct your attention to this paragraph: "It is the opinion that cooperative marketing is practical, economically sound in principle, and can be made a success if assistance is given to supply proper guidance at the start." On page twenty-eight of that report -- this will be found on page four of the appendix to this brief -- under the heading

"agricultural cooperation" I quote: "We believe that cooperation in agriculture should be encouraged. Some of the reasons for this belief may be stated." Then there are six reasons set out. I refer only to the last reason given on page five of this appendix: "That the success of cooperation is dependent upon the action of the farmers themselves, and that they should be permitted to direct their organization without Governmental or institutional interference." I refer next to the report under the chairmanship of Mr. A.K. MacLean, chairman of the Royal Commission on Maritime Fisheries in 1928. That is a Dominion report. I direct attention to the third paragraph on page six of this appendix: "We recommend, therefore, that the establishment of cooperative organization of fishermen be assisted by the department as soon as possible, and that an organizer, experienced in cooperative methods, be appointed and paid by the Federal Government for the required period to initiate and complete this work. A preliminary study and survey of the entire Maritime provinces should be made to determine the localities where such organizations are possible or feasible." I will not labour this now, but I use it in supporting this submission by Mr. McEwen. Finally -- I hope finally -- on page seven of the appendix I would refer to the report of the Royal Commission Provincial Economic Inquiry under the Chairmanship of Professor J. H. Jones. That was in 1934. I quote the following: "We were particularly impressed by the cooperative enterprises now in operation along the eastern shores of the mainland. Lobster canning factories have been established in several villages by the fishermen themselves, and the villages

have cooperated to supply canned lobster to new markets. We believe that these enterprises contain great possibilities and that they are worthy of encouragement." And on page eight, the last sentence in the first paragraph: "In short, the cooperative bodies perform the function of middlemen. While the scheme is obviously restricted in scope, and is still in an experimental stage, it represents a serious attempt to deal with a crisis." On the last page of the appendix there will be found quotations from the report of the Royal Commission on Price Spreads. The statement we give there is already before the Commission in a number of other briefs and we use it in support of Mr. McEwen's submission. Please proceed, Mr. McEwen.

THE WITNESS: I was on page 14 of the brief. I continue:

"The Route of Progress: The history of the progress of the human race has many angles, but one thing stands out clear; all progress through all the ages must be credited to those people who questioned old methods and sought new ways and ideas of doing things. It is equally true that seldom were the ideas of these progressive thinkers unopposed at the time as change invariably interferes with some economic interest.

"Cooperators believe their ideas applied to business ownership and operation promise improvement from past methods, if the general welfare is used as the criterion.

"Cooperative Field and Objective: Some who have been opposing the co-ops during the sittings of this Commission have endeavoured to show that cooperation must be limited to some elementary function like forming a shipping club. They have said, or implied, that to process or manufacture takes the business out of the realm of legitimate coopera-

tive activity.

"Our view is that to agree to any restriction of cooperative activity is an evasion of the real significance of the movement. Cooperation and so-called private business represent two methods of handling the business of this country, or the world. The difference between them lies much less in scope or physical facilities than in control and the motivating power back of their operation.

"The cooperative movement expects and plans for the operation of every type of business and service, the product of which represents a real need of the people who eventually use it. That will mean factories. That will mean processing. That will mean transportation. That will mean every type of service the people want.

"The people are, in a large measure, getting their goods and services from private industry now and the motivating force back of the operation is profit and profit represents a charge made in excess of the cost of rendering the service.

"Cooperators propose to reverse the control - not restrict the area of operations. They make the users of the service responsible for the decision to establish it in the first place, then to operate and pay the costs thereof. That method goes far towards eliminating the exploitation for gain of one man by another and it develops as nothing else can, initiative, pride of accomplishment, and sense of responsibility on the part of those participating.

"The cooperative method when brought to full fruition removes the desire to corner the resources of the world, such as, oil, minerals, power, etc., for private gain; cooperators desire rather to develop these by and for

the use of the people. Cooperators believe that the elimination of the profit motive also eliminates the root causes of war and want in the midst of plenty. They cannot reconcile the people's needs with killing stock, plowing down corn, destroying coffee, while millions at the same time are undernourished. Cooperators argue that the competitive destruction of war is but a quickening or extension of this destruction they saw in peace time. As cooperators see it, this Commission inquiry is not merely a tax issue, it's a fight for the right to go on building towards that goal of the golden rule in business and in this cooperative presentation it is a plea for all forward-minded people to help.

"We Fight for Democracy: We are in the midst of a second world war. These wars fought, about a quarter century apart, to save or preserve democracy. Democracy is fundamentally based on the sovereignty of the people.

"Political Democracy: In the application of those sovereign rights in the political field, each adult has the right to one vote only in choosing those to whom he or she is willing to delegate the authority of government and in this the will of the majority rules. Those elected representatives, are, or should be, the servants, not the masters, of the people. This field of government represents a very important power, which the people delegate to their elected representatives.

"Economic Democracy: Economic control is a second important field of power and those who rule in this may have domination over people to the point where that dependence may threaten their political sovereignty.

"Cooperative business is democratic. It represents

groups of people who have set up the necessary organization to perform some service or services for themselves, and just as in the political field where each individual has one vote only, so in the economic field, cooperators vest their control in one member, one vote.

"Position of Individual: We emphasize that the individual is and must remain sovereign in both political and economic fields. Money or material things should not dominate him if democracy is to be maintained. Political organizations and business organizations must be instruments only to serve the needs of the people. To paraphrase a biblical quotation, we would say - 'Business must be made for man and not man for business'.

"A country's most important asset is its people. It is the people that determine a country's greatness and permanence. A great people will build great things for their own use or the use of their fellow men.

"Cooperators are endeavouring to build people. Experience has indicated that a great people has also to be a free people. The cooperators assume the responsibility of building their own services, their own institutions, their own economic and social order.

"The people respond in the same way as two farmers' sons might do - one with nothing but work, a living and an occasional dollar grudgingly given is likely to become a selfish adult; while the other given a calf, a colt, some pigs, in other words given a stake in the enterprise is more likely to develop to be a clear-thinking, unselfish community-minded citizen.

"Cooperators are trying to give that kind of interest and control to individuals. To meet the business world

they must be organized into groups. But as those groups expand their control and their members grow out of the influence of profit making, where many have lived most of their lives, they grow into a business-for-service attitude which, we believe, will gradually remove the root causes of poverty, illiteracy, ignorance, competition and war. We want to build industries. We want to build other services and we want a free people to own these things when they are built.

"Summary: The Canadian Livestock Co-operative (Maritimes) has presented this brief in support of the cooperative way of business and to show the need for cooperation to the members of the organization. The question of taxation of surpluses accumulated from overcharge during any business period is not opposed by cooperatives because of any hope of advantage over a competitor or other business, but is opposed as a matter of protecting a principle vital to the democratic rights of the people to organize to do their own business on a non-profit cooperative basis. This contains the right to consider surplus as overcharge for goods or services supplied or as additional price for goods marketed.

"Freedom to Grow: We claim the sovereign rights of the people must be protected; we claim there must be no restrictions upon their rights to organize or grow. There should be no regulation of business which refuses or restricts the right to democratic growth. There should be no monopoly control of needed supplies available to one distributor on a different basis than another. Cooperatives accept the competition of private business, providing that competition is open and fair and it must always

be remembered that profit - taxable profit - is, and can never be anything but, an overcharge in excess of the cost of performing the service from which it sprung.

"Private business is not subject to any disadvantage competitively, as compared with co-ops, up to the point of paying all costs involved in rendering the service to the public involved. If each is equally efficient private business can still remain in the field, tax or no tax. The co-ops may compel business to be satisfied with low profits, we sincerely hope so. To accept low profits may be its salvation rather than a threat to its existence. It might be well for business to learn the lesson from the Aesops Fable where the moral read, "Grasp only half the quantity and you will easily succeed".

"As to Taxes--they represent a charge on the production of the country. Co-ops do not lessen production. Indeed, they help increase it. The thing for the tax authority to do is apply the tax where it belongs. We claim it does not belong against cooperative surpluses accumulated from business done with members and while still in the hands of the cooperative."

Documents filed with brief:

Memorandum of Association - Articles of Association and By-Laws (1934)

Constitution and By-Laws (Maritime Co-operative Services Ltd.)

Excerpts from:

Report of the New Brunswick Committee on Reconstruction - 1944

Report of the Royal Commission investigating the Apple Industry of the Province of Nova Scotia 1930

Report of the Royal Commission on Maritime Claims (Dominion) 1926

Report of the Agricultural Enquiry Committee, 1926

Report of the Royal Commission Investigating the Fisheries of the Maritime Provinces - 1928

Report of the Royal Commission - Provincial
Economic Inquiry

Report of the Royal Commission on Price Spreads
- 1935.

BY MR. PARKER:

Q. Mr. McEwen, in so far as the document which you have just read consists of statements of fact as distinct from argument, are they all within your own personal knowledge so that you can say they are true? A. I think there are one or two points where we have said they can be verified. I can either do so from personal knowledge or see that they are verified.

Q. And those which have been made on information given you, you have reason to believe they are true and reliable? A. Yes.

Q. And in so far as statements in the document are inferences drawn from these and other facts, in so far as they consist of argument, those inferences and those arguments are your own personal inferences and arguments? A. We have the support of our board on that.

Q. How many? A. There are five members of the board in the room now.

Q. How many are on the board? A. Seven, and I have received written or wired instructions from the others.

Q. These seven members of your board are selected by some system? A. Yes.

Q. And the total membership of all clubs, which in turn form the membership of this society, would be how many -- the individuals, the individual members of clubs, approximately? A. I would have to make a wild guess because our membership consists of locals and not individuals.

Q. How many locals make up your membership?

A. Say a hundred.

Q. That would be one hundred groups? A. Yes.

Q. Of that one hundred, what would be a fair average of the individual members of clubs -- ten, twenty, fifty or what? A. Some are small societies and others are federations of societies.

Q. I am trying to get back to the individual producers of livestock. How many individual men and women are represented through that channel, roughly? A. I haven't got the actual figures but I would say probably 10,000.

Q. It is a very substantial number. A. Yes.

Q. Out of that 10,000 are you in a position to say that more than five individuals concur in the views you have expressed in this document? A. Yes.

Q. How many more in addition to the five you have mentioned? A. Do I have to nail it down to a figure?

Q. Not exactly; come to within 10 or 20 if you can.
A. We would have 30 individual members in the room now who would support it.

Q. Is that the limit? A. No. Let me explain this.

Q. Answer first and explain afterwards. How many of those 10,000 approximately are you in a position to say are in accord with the views you have expressed in this document? Would there be 30, 40, 50, 200, 500 or 8,000? I know you can't be exact, but you can give an approximation. A. There has been no opportunity to give it to individuals except a few. Will you let me explain now.

Q. Go ahead. A. In explanation of that I would take this view. This will be given all the publicity we can give it within our membership as soon as it is clear. It

has been a confidential document up to this time, but I would be much more afraid of what our board would say if we did not defend these views than if we did, when it comes to the next annual meeting.

Q. The fact remains that you and your board have seen fit to express these views believing no doubt that they correctly reflect the opinions held by the vast majority of your members. I suppose that is so? A. I will accept that; it will do for the time being.

Q. I do not want you to accept it unless you agree with it wholeheartedly; or are you putting forth views that you doubt will be acceptable to the large number of members?

A. There is one place in the brief I have said this is a different type of movement from ordinary business.

Q. Do you consider that an answer to my question?

A. Let me finish and I can lay the basis for the statement I have made.

Q. Answer the question and then make the explanation afterwards; that is the system I am used to. A. I agreed to tell the truth, the whole truth and nothing but the truth as I know it and I cannot answer that question yes or no. I can give an explanation of what it means.

Q. Go ahead. A. This cooperative movement is a democratic movement and it depends on teaching all the people to do their own business. We cannot do this unless we give them the material to study and to learn. It is the same as teaching children. Would you say that you had to give children something and let them study it before deciding whether it was something worth while to be submitted to them? That is the basis of this contention. If we keep in mind that this cooperative movement is a

democratic movement and that this material is given them to study so that they can come back at the next annual meeting and express considered views upon it, you will understand our position. When they come back, if they do not like it we shall very soon know.

Q. This represents the views of your governing body and you have submitted it to the Commission and later you will submit it to the membership and take the consequences of their decision, whether or not they approve of it. But whether they approve of it or not, you do not know?

A. That is the position.

Q. Before dealing with the brief in detail, there are one or two general principles to be cleared up. Look at page 17 of this document, the last page, at the very top -- or rather start at the bottom of the previous page. You say: "The question of taxation of surpluses accumulated from overcharge during any business period is not opposed by cooperatives because of any hope of advantage over a competitor or other business, but is opposed as a matter of protecting a principle vital to the democratic rights of the people to organize to do their own business on a non-profit cooperative basis." Have you heard of any suggestion from any source objecting to the cooperative method of doing business? Have you heard such an objection coming from anybody? A. From anybody?

Q. Yes. A. Yes; I heard it this morning.

Q. Opposed to that method of doing business, opposed to the cooperative principle? Have you heard anybody oppose that principle as part of our economic life in this country? If so, tell us where and when. A. Opposed to cooperation as practiced, yes.

Q. But opposed to what I will call, if you agree, the true cooperative principle. Have you heard anyone oppose that? A. There are cooperative principles that really amount to nothing more than a matter of working together, and there are cooperative principles that are distinct as applicable to this movement, this way of doing business. We have definitely plenty of opposition to the cooperative principles as applied to business.

Q. Perhaps I have not made myself clear. Is there any opinion of which you are aware, has anyone expressed to you the view, that the cooperative method of doing business, the general cooperative method as a principle is a bad principle so that they are opposed to it so far as this country is concerned? Personally I have not heard such an opinion and I have discussed 125 briefs in the last few months with various witnesses. In all that time I have failed to find anyone who has come before the Commission and stated -- if I am misstating the facts the Commissioners will correct me -- that they were opposed to the cooperative as a principle of doing business. Have you heard that?

A. The Rochdale principles --

Q. Will you be good enough to answer my question?

A. On the basis of the Rochdale principles, yes; the scope that they cover, yes.

Q. Who are they that oppose it? Tell us who they are?

A. I could if you would give me time to dig into the records of the Commission here.

Q. We cannot take time for that now. At any rate, you cannot recall any at the moment? A. Not to give names, but we can get them.

Q. I am not waiting for you to deliver lectures on

economics at this stage. Coming back to the sentence you use in the brief, you say that the question of taxation of surpluses, and so on, "is opposed as a matter of protecting a principle vital to the democratic rights of the people to organize to do their own business on a non-profit cooperative basis." Is the question of taxation opposed to that principle which you state in your brief? Does anyone who suggests taxation oppose that method of doing business or is anyone proposing to do something to take away protection from the democratic rights of people in that direction? A. Not taxation as such, but taxation of savings.

Q. Of certain types and certain people? A. Yes.

Q. That is what you mean by that? A. Yes.

Q. And you say that taxation of cooperative business as you have it in New Brunswick would be opposing these democratic rights of the people. Is that your argument? A. These savings.

Q. Is that your argument? A. This is a question of income.

Q. But is that your argument? Have I stated it correctly? A. Not fully.

Q. Then will you state it correctly. A. The taxation question applies here to savings.

Q. Yes. A. Or extras received on sales; "savings" will do for illustration at the moment. That is not the property of anyone other than those who contributed to the business in the light of our principles.

Q. Is that your full answer? A. Until I get another question, yes.

Q. You have quoted extensively, as supplements to

your brief, from the reports of five or six other Royal Commissions? A. Yes.

Q. Did you make those selections on your own judgment as being excerpts that were relevant to this inquiry and in support of the contention you are making in this brief? Is that your purpose in quoting these extracts from various reports of Commissions, to support the arguments set forth in this document? A. They do support it, yes.

Q. That is what you have quoted them for? A. Yes.

Q. Don't agree with me just to get rid of me; if that is not what you have quoted them for don't say it is. Is that the reason they are quoted. A. They are quoted for that purpose and to show the reason for which these various recommendations were made.

Q. Is it fair to sum it all up by saying that all these reports, some from one angle and some from another, heartily endorse the cooperative method of doing business? Is that a fair way to state your view of those reports?

A. We are impartial to this extent, that we have taken all the reports affecting the Maritimes.

Q. I am not suggesting that you are not impartial.

A. When we discuss anything under the heading of agriculture we give the full reports under that heading.

Q. And in effect everyone of them approves of the cooperative method of doing business in this country?

A. I think that is right.

Q. Well, is there a suggestion in any one of them, either directly or indirectly, that cooperatives should not pay income tax? Is there any such suggestion anywhere that you have seen in any of these reports? A. I don't

think that was ever the question that was being investigated.

Q. I do not think so either; I doubt whether it was even mentioned in the evidence, to say nothing of the report. A. I think that is right.

Q. Then we can agree on that. Now let us come to this association in particular at the moment. You have produced two sets of by-laws attached to the brief?

A. Yes.

Q. One being the by-laws presently in force respecting the internal workings of this company -- that is the one passed in 1934? A. Yes.

Q. And a year or so ago you applied to the proper authorities at Ottawa to obtain enlarged powers so that you could extend your operations to different fields. Is that right? A. That is right.

Q. And you were advised by the authorities that it would be better if, instead of amending the existing charter, you consolidated it and took a brand new one, new letters patent? A. Yes.

Q. And you acted on that advice and incorporated this company, called now Maritime Co-operative Services Limited? A. Yes.

Q. And among other things it is to take over the entire business of Canadian Livestock Co-operative Maritimes? A. Yes.

Q. And that I take it is in process of being taken over now? A. Yes.

Q. The necessary resolutions are in course of preparation, and whatever else has to be done, and when that is completed you will be ready on the first of May to go ahead

under the new name and under the new charter. That is your position? A. Yes.

Q. And when you get started on the first of May the members of this Maritime Co-operative Services Limited will be made up of what? What will the members consist of?

A. It will be groups of similar cooperatives, smaller cooperative groups.

Q. Who are the present groups -- groups of what, and how organized? What are the groups that form your membership? To begin with there are members, incorporated bodies incorporated under the Associations Act? A. Yes.

Q. How many of them would there be? A. I have not the figures.

Q. Approximately, 10, a dozen, 15? A. There would be more than that.

Q. Give me an approximate idea; I don't care whether it is 25 or what. A. I repeat, we are up against the problem of encountering a society such as, for instance, in Cape Breton, where there is one membership comprising a federation of 30 or 40 members.

Q. Take the members who are individual units or locals. How many of that type are there -- a couple of dozen?

A. I have not the figures, but speaking from memory, there would be that anyway.

Q. How many federations are members of the society?

A. Three that I can think of offhand.

Q. And there may be one or two more? However, apart from those, are there individual persons who are members of Maritime Co-operative Services Limited, or will there be, or is your membership restricted to associations and federations. A. You understand, this has not actually been

accomplished.

Q. But it will be the same as the existing one?

A. I think the power is there, if I remember correctly.

Q. I am not talking about power but about your members, those who constitute members. Forget about the new ones. The members of the existing Canadian Livestock are made up of these associations of which you speak, three or four? A. Yes.

Q. They are made up of individual clubs also, 25 or 30? A. There would be more than that.

Q. At any rate, in addition to those two types of members, are there individual persons who are also members?

A. Yes, under the present set-up there are some.

Q. You say there are 10,000 members altogether?

A. Not directly.

Q. Of the individual members can you give an idea how many there would be -- a couple of thousand? A. No.

Q. Four or five hundred? A. No, less than that.

Q. The 10,000 include say three or four hundred individuals, plus the individual members of group units, and the individual members of these clubs which form the federation? A. Yes.

Q. And that will be the same set-up when the new company takes over? A. Except that under the Dominion Companies Act, in its regulations, there are some things that cannot be done.

Q. Under the existing company, as I read the by-laws and the Act, the Canadian Livestock Co-operative certainly has power to buy and sell commodities of a great many types? A. Yes.

Q. If it sees fit to do so. Does it as a matter of

fact engage in that type of business? Does it buy and sell commodities? A. To others.

Q. I did not say to whom; do they buy and sell?

A. Yes.

Q. Let us deal with these things one at a time. Do they buy products, livestock and one thing and another, from their members? A. No.

Q. They do not buy from their members? A. I would not say that in the case of livestock, no.

Q. Do they buy any commodity of any kind from the members? A. As a service for the members.

Q. It is a simple question I am asking you. I want to know if Canadian Livestock Co-operative buys any commodities of any kind from its members? A. They may do so.

Q. Well, do they? You are manager of the concern; do you know whether they do or not? A. Yes, I know pretty well.

Q. Will you please answer my question, if you know. Does it? A. We do, for instance, if it is fertilizer.

Q. Have you any objection to answering my question? Is it a fair question? A. I answered, yes, if there is something for use.

Q. I do not want to be arbitrary but I would like to have an answer to a simple question, and it is very simple. I asked you whether this society, of which you are the general manager, buys commodities of any kind from its members. Surely you can tell me whether it does or does not. A. It is not the policy.

Q. I did not ask you about the policy; I asked you a question concerning a simple matter of fact. Do they

do that? A. If the question were with reference to some particular commodity I think I could answer it.

Q. You are the General Manager and you know what commodities the society deals in. Now can you answer me?

A. I started in my own way to answer you and you stopped me.

Q. I can only get along if you answer the question as I put them. Can you tell me whether this association in the past, from time to time, has purchased at any time any commodities from any of its members? A. I can't think of any specific transaction.

Q. Whether you can think of any specific transaction, have you any knowledge? A. Will you let me illustrate.

Q. I prefer not, unless you answer my question. You can illustrate afterwards to your heart's content. If I am unfair the Chairman will stop me; there is no doubt of that. Surely you know, don't you? If you don't know, I will not press you on it. I don't want to persist in a question if a man says he does not know. A. I could make the point clear in a sentence or two.

Q. Will you tell me why there is any objection to answering my question? That is what I am here for, to bring out the facts. A. I have no objection to answering your question.

Q. Then answer it, please. A. I said I could not think of any individual transaction.

Q. But you know that some could have taken place? A. They could have.

Q. Well, did they? A. I told you I can't think of any individual transaction.

Q. You either know or you do not know. Perhaps we

can start there. A. They were purchasing supplies, I think I said; if it is some service that the members have established.

Q. Did I say a word about service, have I mentioned the word service since I began asking you questions?

A. I have answered it as best I can. I can't think of any individual transaction.

Q. I did not ask you to name an individual transaction. I am asking you if you know whether in the past this association has purchased any commodities from any of its members. You either know that or you do not know it. Which is it? A. I will be satisfied with not knowing it for now.

THE CHAIRMAN: Then on what basis does it take goods from its members?

THE WITNESS: In the case of marketing livestock, that service is set up and we never take ownership. The organization sells on behalf of the members, receives the money and sends the proceeds to the members.

THE CHAIRMAN: Is it a consignment contract?

THE WITNESS: In that case.

THE CHAIRMAN: That is the answer to Mr. Parker, if that is the way you do your business. It is very simple; it is on a consignment basis. Are you sure that is right?

THE WITNESS: That is right as regards livestock.

BY MR. PARKER:

Q. Certainly it is right as regards livestock. Is it right as regards every other commodity? You say it is true as to livestock; is it true as to other commodities?

A. It may or may not be.

Q. May or may not be? A. We are carrying on two

services, selling and obtaining goods.

MR. PARKER: If the Commission wants to hear that I have no objection.

MR. FRANCIS: This is three and a half million dollar business. He is the General Manager, buying supplies.

THE CHAIRMAN: We are willing to let him answer. I do not see that there is any difficulty in the question. Is that the answer you want to make? Ask the witness how he does business with his members.

BY MR. PARKER:

Q. How do you do business with your members? A. In the selling, we have described that. In the purchasing, we may purchase supplies for them from any source where the wanted supplies are obtained. In buying oats for some club in Cape Breton we may buy from Carleton County but we don't check as to whether it comes from a member or not.

BY MR. ARNASON:

Q. You say on the first page of the brief that you market livestock, poultry and seeds and you have answered how you market livestock. Do you market poultry and seeds for members on the same basis? A. Yes.

BY MR. PARKER:

Q. That is simple. I am asking you if you buy any commodities from any of your members and you tell me you buy certain things on consignment and I want to find out whether all your business is on consignment. A. I think I have answered that.

Q. Do you sell the members' commodities at any time? A. Yes.

Q. Do you sell at the same price you buy for, or do you sell at the market price? A. There would be a

mark-up.

Q. You collect from the members a little more than it costs the society to purchase and to distribute to them?

A. Yes; we have explained that.

Q. Now turn to the brief. There are a few questions I want to ask you hurriedly. Look at the third paragraph on page one: "The organization is a general purpose marketing and commercial cooperative with a federal charter." What do you mean by a commercial cooperative? You are buying and selling; is that it? Is that what you mean by that? A. Obtaining supplies for the members, yes. That is right.

Q. You have stated in various places in your brief -- I cannot point my finger to them -- the various improvements that have taken place in the livestock industry and in the condition of the farmers by reason of the activities of this and other cooperatives? A. Yes.

Q. And in more than one place you have referred to assistance the movement has received from various Government Departments, the Department of Agriculture both federal and provincial? A. That is right.

Q. I suppose a great deal of that success and prosperity which the farmers are now enjoying is due to the assistance given by the federal and provincial Governments? A. I would say yes. They have definitely assisted, but I have tried to point out the place of each.

Q. I understand that. You have given credit to both and I am trying to get your ideas as to where the credit should go, whether it is mostly to the cooperative movement in education or to the attention which Mr. Macdonald, as Minister of Agriculture of Nova Scotia, and his pre-

decessors and various Ministers of Agriculture in Ottawa and New Brunswick have shown to you. A. Keep in mind that they are the people's elected representatives.

Q. I appreciate that, and I also appreciate the fact that they are elected by all the people and not merely by the members of the cooperatives. A. That is right.

Q. Would you say that fifty-fifty would be a fair apportionment of the credit as between the cooperative movement and the Government, or how would you divide it?

A. I would not divide it on a percentage basis. It is about the same.

Q. It is not very scientific but it gives us some idea. A. It is like asking which is the most important leg in a three-legged stool.

Q. I am quite willing to accept that. Perhaps you don't agree with me that the three are about equally important? A. I think that is fair.

Q. Then it is about fifty-fifty after all? A. That is good enough.

Q. You might have agreed with me in the first instance, then. I notice that at the bottom of page one, after referring to these Government grants, you say that this society got started in 1927, and in 1938 these grants were discontinued at the request of the cooperative. That seems most unusual. It is a most unusual statement to read in a brief, that you should ask the Government to be pleased to discontinue giving a grant. Why was that request made?

A. We don't believe in that kind of assistance, fundamentally.

Q. What kind of assistance? A. Cash grants.

Q. You don't? A. No.

Q. Apparently from 1927 to 1938 this society believed in them. What happened about that time that caused them to change their belief? A. Keep in mind that the federal department had operated this service themselves from 1919 to 1927. They were bearing the whole cost, and they recommended -- and took the initiative -- that the people should come together to set up a cooperative, and they said, "We will give you this assistance until you get going."

Q. So that up to that period this institution, which really had its genesis in Government activity, received grants and when it got going the cooperative took it over? A. That is right.

Q. And that is the reason you asked them to discontinue giving the grants. You thought it was sufficiently established that you did not need grants any more? A. We don't believe in it anyway.

Q. Is that the reason you requested that the grants be not forwarded to you any longer? A. That is right.

Q. Why did you not come to that decision before? What happened about that time? Did anything in particular occur? A. You want an explanation of that?

Q. What led up to it? That is what I want to know. A. What led up to it was this. In 1933 we put out a cooperative plan for the next five years entailing what we hoped to accomplish within that period. There were ten objectives indicating the manner in which we hoped it would work and item nine called for the elimination of Government grants. That was in 1933. It takes a little time for the people to learn these things, but by the time 1938 came around they were ready to recommend at the

annual meeting that no more grants be given.

Q. You thought these institutions were better off without Government aid if they were well and properly organized? A. Yes, that is right.

Q. Part way down the page, page two, there is something about membership. You have told us how the membership is made up, from individuals, federations and individual societies. When you all get together how do all these people vote -- by a system of federation delegates or district delegates? All these 10,000 do not get together at one annual meeting? A. It is delegates, patronage delegates.

Q. That is set out in your constitution? They vote through the delegate system. One hundred men in one community meet and select their delegate and he attends the meeting and speaks on behalf of the hundred? A. Yes. We have 100 delegates at the annual meeting, probably.

Q. I suggest to you, what I have suggested to other witnesses in discussing this subject, that it is indistinguishable from the system of proxy voting that obtains in an ordinary company where one man attends a meeting and represents another. What is the fundamental difference between voting by delegates and voting by written proxy?

A. This is people representing people and not people representing money.

Q. But have not these people money at stake in the institution? A. It is not on that basis.

Q. But in point of fact it is money they are interested in, to get more for their produce. Is not that the primary purpose of this thing -- that the producer may get more for his produce? Isn't that the primary reason for the coming into existence of cooperative societies? First

they can get more for what they sell and secondly they can get at a cheaper price what they have to buy? A. Because that is vital to the things they need for a full life.

Q. But do we not all need that, whether we are members of a cooperative or not? Does the cooperative need it more than I do or anyone else does? A. That is not the main objective.

Q. Is it not the main objective? A. It is the first one.

Q. Is it not the primary one? A. Primary means first, and I say it is the first step in order to reach something bigger.

Q. Isn't that what all the human race is seeking in a civilized country, to get more of the good things of the world so as to enjoy a full life? A. It may be.

Q. To your observation, isn't that true? A. But sometimes they have a funny way of seeking it.

Q. Some like to secure it by not paying taxes and letting the other fellow pay them. Is that one way? A. I could name instances of that.

Q. Let us go on to the middle of page three, the lower part of the page. I am sticking fairly close to the question of taxation. You say: "Income tax returns have been sent annually to the Inspector of Income Tax, Saint John, since the founding of the organization." No tax has ever been assessed against this association? A. That is right.

Q. You say further: "There has been no tax levied as it was understood since 1930 that clause 4(p) of the Income Tax Act relieved the organization of responsibility in this matter." Have you any letters from any income tax

officials or any authoritative statement of any kind advising you on that point? A. Not to my knowledge.

Q. You have never seen any in the files of the company? A. No.

Q. Did you ever discuss it personally with the Income Tax Inspector? A. The report always goes in.

Q. But did you ever discuss it personally with him? A. Not in this respect, no.

Q. You say "as it was understood". Do you mean understood by the company? A. Yes.

Q. You never got any acknowledgment from the Income Tax Department saying that they so understood it? A. Not that I recall.

Q. In the next paragraph you say: "While no assessment has been made, interpretations and rulings of the Income Tax Department applied to other cooperatives in the last few years removed any feeling of confidence that a tax would not be imposed on savings and might be made retroactive to cover many years." What rulings have you any knowledge about on which you are relying? A. I believe it was within the last two years that there was a local ruling. I don't know whether it was made elsewhere.

Q. By the Saint John Division? A. Yes.

Q. What was it? A. It was eventually countermanded. It was to the effect, however, that if any organization paid a dividend on shares or interest on shares, that removed it from the status of a cooperative. It is true that was withdrawn, but that was projected at one stage. Then there is another cooperative in the province that was assessed, which is operating in much the same way as we are, and that was withdrawn. One was Madawaska.

Q. Has this Canadian Livestock any share capital?

A. Not as presently constituted.

Q. Did it at one time? A. Yes.

Q. The new company will have? A. Referring to the charter?

Q. Yes. A. One hundred thousand, I think.

Q. And you perhaps sell shares? A. That is the only way the Companies Act will let you organize.

Q. According to the ruling you have spoken of it will have to pay income tax because it has share capital?

A. That was withdrawn, but it was projected.

Q. That is still a matter you have to face? A. Yes.

Q. Can you tell us in round figures, at the top of page four when you speak of Dominion and Provincial aid, how much aid this company has received? A. Gross?

Q. Yes. How much from the Dominion and how much from the two provinces? You may have the figures approximately in your head. A. As indicated here, it was \$1,000 for the first number of years from the Dominion and it was reduced some time in the early 30's to \$600 a year -- that is from the Dominion -- and the provinces contributed fairly consistently, not every year but fairly consistently, \$500 each.

Q. That is from each province? A. Yes.

Q. That is about the extent of the actual cash?

A. Yes.

Q. No loans? A. No.

Q. You never borrowed from the bank? A. Oh yes.

Q. But you don't have loans guaranteed; you borrow on your own credit? A. Yes.

Q. On page four you say: "In performing such service there are well established rules that the business shall be

non-profit in character." I don't get that -- business being non-profit in character. If you had said non-profit in fact, I could understand you; but what do you mean by non-profit in character? A. Where is that?

Q. It is the third paragraph from the bottom of page four. Do you mean non-profit in effect? A. I think I would accept that explanation.

Q. I just want to make sure if that is what you mean. It may not be in effect. That is your intention? You use the expression in the next paragraph where you say: "There are other rules important to the cooperator, but not so pertinent to this inquiry as the particular one relative to being non-profit in character." I suggest that the important thing to this inquiry is whether it is non-profit in fact. Is it non-profit in effect? A. Yes; I will accept that.

Q. In the next paragraph you say: "To illustrate the difference in motive and effect of the operating principles of profit versus non-profit business", and so on. Does the motive in the obtaining of these earnings or surpluses or savings or whatever they may be called, and the manner in which they are disposed of, make any difference in your opinion as to whether they are profits?

A. Yes.

Q. It depends on the motive behind the acquisition of them, and the manner in which they are disposed of; you look upon those two factors as necessary in deciding the question whether they are profits. Is that a fair question? A. That is a fair question.

THE CHAIRMAN: Would your answer be the same if the question were taxation? Does the motive govern the

company's taxation?

THE WITNESS: No; I don't think I would take that stand.

BY MR. PARKER:

Q. Nor the question of disposition? A. Yes, disposition.

Q. That would govern the question whether they are taxable? A. Yes.

Q. You have carefully considered that? I want to make sure that we are talking about the same thing, and I am putting it this way so that there will be no misunderstanding. I might go and work hard to earn money in order that I might pay for the education of my son. That is a very laudible motive, one might say, and I might earn sufficient for that purpose. Another man might work as hard and earn money for an entirely different purpose, because he wanted to get drunk perhaps, or go on a lark somewhere, and he spends his money in that way. Can the motive impelling me to earn the money I get, and the manner in which I spend that money, make any possible difference to the nature of the thing I acquire? A. The Chairman asked me a question which I understood to be this: whether there was a distinction between the motive in acquiring surplus and the actual distribution of it. I understood the question to be whether the disposition of the surplus would make a difference and I said yes.

Q. I want to make sure that you understand the question. A. That is still my answer.

Q. Whether the profits should be taxable profits depends upon the manner in which they are disposed of? A. In relation to the source.

Q. You take the two together? A. Yes, definitely. It has to be in relation to the source.

THE CHAIRMAN: Must the Government look at the disposition of any surplus in order to decide whether it should be taxed or not?

THE WITNESS: Yes. We so contend in the case where we are dealing with members and that surplus goes back into their business.

THE CHAIRMAN: Then the right to tax depends on the disposition made of the surplus. Is that your argument?

THE WITNESS: On this corporate income.

BY MR. PARKER:

Q. Turn to page five now. You have set out some figures taken from an article published in the Financial Post. A. Yes. It is from a Bank of Canada report.

Q. Have you the original Bank of Canada report? A. No.

Q. Have you seen it yourself? A. No.

Q. You took this information from a portion of a Bank of Canada report published in the Financial Post? A. Yes.

Q. Did you take all the figures published in the Financial Post in reference to this matter or did you pick out certain ones? A. I gave the whole of these figures, not all the figures published in the report.

Q. In connection with that report, were there any figures showing the amount of capital invested in those 665 companies on which the figures set forth in the table represent the income earned? Perhaps you have the whole of the Financial Post article. Do you understand my question? A. Yes.

Q. Have you got them? Take your time. A. Without going through it fully, I don't see it.

Q. Whether they are there or not, will you direct your attention to your brief. You have shown, from 1936 to 1943 inclusive, a net operating profit of the 665 companies? A. Yes.

Q. First, can you tell us what those 665 include? I know you can't name them, but what I want to get at is this: Are they limited to manufacturing concerns or trading concerns or shipping concerns, railways, banks, or generally what do they embrace? A. There are 55 dealing in food, 17 in drink, 3 tobacco, 12 leather, 7 dealing in rubber, 56 dealing in textiles, 18 dealing in wood products, 25 in pulp and paper and so on, 24 paper products, 12 printing and publishing, 52 iron and steel products exclusive of machinery, 58 machinery, 39 gold mining, 19 are other non-ferrous metals, 24 electrical machinery and equipment, 28 coal and petroleum, 23 non-metallic minerals exclusive of fuel, 39 chemicals, 60 wholesale trade and services, 33 retail trade and services, 23 electric utilities, 6 communications, 32 transportation and storage.

Q. That is the one I was waiting for, electrical facilities and transportation. Does that include the C.P.R.? A. I would assume so. But there isn't enough profit to fit the C.P.R.

Q. Perhaps you will have a note of how much profit the C.P.R. makes? A. I am not sure, but I don't think it was point two.

Q. Point two what? A. Millions in one year; it might have been.

THE CHAIRMAN: Have they paid dividends on common

stock lately?

THE WITNESS: I don't know.

BY MR. FARKER:

Q. What I am getting at is this. You have set out the earnings of these 665 companies, their profit as broken down in the statement? A. Yes.

Q. But you have not given a single bit of information to indicate the amount of capital invested on which the profits shown here were earned, have you? A. No.

Q. The figures are rather meaningless when looked at from that angle because I assume you would not take the position that millions upon millions, hundreds of millions of invested capital in 665 companies are not entitled to a reasonable return? A. There is where they get their money to invest, out of profits.

Q. What is that? A. That is where they get the money to invest; that is where this stock comes from. How do these few companies get control of such a tremendous percentage of business?

Q. I don't know, do you? A. That pretty well illustrates where it comes from.

Q. Is there anything there to show where the money came from that had been invested before these earnings were made? Where did that money come from? A. It came out of these industries.

Q. Don't misunderstand me. It is, I think, obvious to everyone that in these 665 companies that earned these profits which you have listed there must have been tremendous amounts of money invested in order that they might operate and earn that money. That is obvious? A. Yes.

Q. If that is so, without attempting to state how much it is -- I know you don't know, and probably none of us know -- it is obviously a very large amount of money, is it not? A. You mean shares, stock?

Q. The amount of money put into these companies in order that they could get started. For instance, take the C.P.R. Is it not obvious to you that untold millions of money was put into the Canadian Pacific Railway in order to build it up and get it operating -- some Government money, I grant you. A. Yes, and land grants. It was the people of this country who built that railway.

Q. No private capital put up at all? A. Oh yes, private capital; but there were four billions in eight years that got over from the people to private monopoly.

Q. I am trying to find out whether you, as a supporter of the cooperative movement, take the position that invested capital in all these 665 companies is entitled to a reasonable return by way of dividends or interest? A. One of the principles of the cooperative movement is to limit interest on stock to a fair earning.

Q. And what do you consider fair? A. They usually set it at not more than --

Q. Five per cent? A. Five per cent.

Q. And some of their acts which cooperatives have passed through the legislature go as high as eight as a maximum? A. Oh yes; I think there is one.

Q. And they have paid all the way from nothing to 2, 3, 4, or 5 or higher in some cases? A. In practice, yes.

Q. Would a fair average be three and a half, four and four and a half? A. I don't know.

Q. What do you think would be a fair rate? A. What--

ever the members agree upon. It is their own business.

Q. Would you not accord the same privilege to ordinary companies, whatever they thought would be a fair interest? Would you not be democratic enough to let them determine that? A. Yes. But I also want to be democratic enough to have the people set up that business and control it themselves.

Q. But in your association there are a lot of other people affected by your activities as well as the members, are there not? A. Affected in what way?

Q. Financially and in other ways, both for good and for ill. Could you operate a cooperative company in a closed compartment without affecting others? You could not? A. I think that is right.

Q. But those whom you affect have nothing to say. There is no democracy there. They have no say. A. Oh yes.

Q. The non-members? A. It is open membership.

Q. But I am talking about the non-members. Do the non-members of a cooperative have control over the operations of the organization? A. While they are non-members, no.

Q. Certainly not.

BY MR. VAUGHAN:

Q. The figure \$4,785,000,000 is quoted for eight years. In figuring the profits of cooperatives that come under you, do you charge up depreciation as an expense before determining profits? A. Yes.

Q. You charge up interest and pay the bank for loans? A. Yes.

Q. Then why do you not do it in making up this statement? You quote \$4,785,000,000 before these deductions; you quote it in several places through your brief, yet in

your cooperatives you deal with similar figures in a different way. A. If you take the fifth item in the table of net profit after that depreciation is taken, there is still \$3,562,000,000.

Q. But you do not quote that; you quote the larger amount all the way through. The larger amount is not correct because you do not operate your own cooperatives that way. A. We do not admit that the two fit into the same mold.

Q. But in figuring your profits you deduct depreciation and interest, and in showing the profits here you show profits before these deductions are made. If it is correct to make the deduction in the case of the cooperative, is it not correct to do it in an ordinary business? A. I listed it as it was in the table, as net operating profit.

Q. Why do you not list it in some of the ones further down? A. I have the whole list here.

Q. You give an entirely wrong impression the way you state it here. Later on in the report it is stated as net profits to 665 corporations when actually it is not at all, since all expenses are not deducted? A. That fifth item is \$3,562,000,000.

Q. Even that is quite different from \$4,785,000,000. It represents a difference of \$1,200,000,000. Go ahead, Mr. Parker.

BY MR. PARKER:

Q. I was going to call attention to the bottom of page 5. Having dealt with the figures, you draw certain conclusions. You say: "The cooperative method of disposal of such surplus is to apportion it back to the people pro

rata to their purchases. Did not all that money go back to the people, the shareholders representing hundreds of thousands of investors, including widows and orphans, rich and poor all over the country? Isn't that where it went? A. Who is spending whose money?

Q. Isn't that where it went to? A. Not to widows and orphans.

Q. Where did it go? A. It doesn't go to the people who created it.

Q. Where does it go? A. It goes to others.

Q. To whom? A. To the shareholders.

Q. And who are the shareholders? Who are the shareholders of those 665 companies? A. There are very few farmers and fishermen among them.

Q. But aren't there, to your knowledge, a lot of widows and children among them? Isn't that true, to be perfectly fair about it? You know that is so? I don't say there are not a lot of millionaires, but you know that these investments are scattered all over the country from the Atlantic to the Pacific? A. You would not want to build your case on the widows, would you?

Q. I am not here to answer questions, but to ask them. Isn't that true, within your personal knowledge?

A. I have no knowledge of such widows and orphans.

BY MR. VAUGHAN:

Q. Before we pass that page, there are a few other questions I would like to ask you. Have you any knowledge of the rate of profit in cooperatives as compared with the rate of profits applying to the companies you cite? Do you know the profits made in cooperatives, and the amount invested, as compared with the profits here and

the investment? Do you know what the comparative rate is?

A. I don't know how you would get a comparison in that list.

Q. You know pretty well what it is in the cooperatives?

A. In operating our merchandising business, in which there are comparable businesses around us, we do not pretend to operate on a different price level.

Q. The rebate is a certain percentage in the consumer cooperatives? A. Yes, for the different services.

Q. What does that figure out on theirs? A. It varies.

Q. Five or ten or seven on the average? A. I don't know what it would average.

Q. We did have evidence showing that in a number of cases it was seven per cent? Would it surprise you to know that that is the highest rate then made by many people in the same line of business? A. It would not surprise me a bit. I will say however that there might be some question of efficiency involved.

Q. Why do you quote these figures if the cooperatives are making just as much money? You are giving this as a sort of statement of what is happening in corporations and on the other hand you seem to believe that there is just as much being made in cooperatives? A. I make the statement to show that the money does not get back to the people who create this wealth. It goes in some other way and we get this tremendous over-balance with a lot of poor people and some rich people.

Q. It goes back in your case to the people of the producer cooperative? A. Yes.

Q. That is their investment, the products they have to sell; and that is the equivalent of the money put up

in the case of a corporation. What is the difference?

A. But this does not go back to the consumer who bought the article.

Q. Is there any difference really? It is a different method, that is all. One puts up a commodity and that represents his investment and the other puts up cash and that represents the investment in his case? A. In connection with Mr. Parker's suggestion, I think there is a difference from the standpoint of the price that is obtained. If there is a surplus it goes back to the man who produces..

BY MR. PARKER:

Q. When you take the farmer's livestock and butcher it and sell it to the market it ultimately gets to the consumer? A. Yes.

Q. The consumer does not get anything out of it.

A. If the consumer is organized into a cooperative.

Q. They buy the beef at your cooperative, but if I buy I don't get a patronage dividend? A. In the consumer's, yes. Mr. Vaughan's question, I believe, centered around retail cooperatives where it might be five, six, or seven per cent.

BY MR. VAUGHAN:

Q. The point in my mind was this. The profits of corporations and the profits of cooperatives are probably the same. I could not tell you. They may be more in one case, for all I know, or they may be less, but they are probably about the same. What is the significance, therefore, of this table that you present? A. I think you will have to accept my basis first. This thing is fundamentally different. This is the case of people building something for themselves, to do a service for themselves.

It is not building something to trade with the general public.

Q. Are you talking about the consumer cooperatives now? A. The other.

Q. I thought we had switched to the consumer. It gets back to this point. There is a wholesale that supplies merchandise, and following Mr. Parker's point, there is no diffusion of that back to the source where the merchandise originates. You said a little while ago that in the case of corporations it did not go back to the creators of the money or profit; neither does it in the case of the consumer cooperative. Does it? A. To the final source of supply?

Q. The source of supply, yes. A. No. It goes to the consumer. It is the consumer who sets up the service in that case.

Q. I thought you said a while ago that it went to the originator of the cooperative, that is to the source where the merchandise came from; but in this case it goes to the consumer. What is the difference between the consumer and the shareholder? A. A shareholder may have only money invested in the business. He may contribute no business whatever out of which profits are made, or surpluses.

Q. What does the consumer-member contribute? A. He has to contribute his business before he is entitled to any patronage dividend.

Q. He buys there but he does not contribute anything to the consumer cooperative? A. Yes. It is the consumer's dollar that contributes everything there is. It is the consumer's dollar that contributed all this.

Q. He buys and pays for something but you do not

call that a contribution. He does not put any actual investment into it. All he does is to buy merchandise and consume it. A. He and his fellow members have to set up facilities for giving service. They have to find the means of doing that.

Q. In the initial stage, but in a few years it goes far beyond the original investment? A. Is there a question in connection with that?

Q. Your investment in a cooperative is the money that is left there by those consumers, which is the equivalent of cash. In a regular company the shareholder puts up cash. What is the difference? A. I have explained my view of that and I will repeat it. In the consumer society it is only the member. He is not interested in this source of supply. In the case of the investor investing for a return on his money, he simply puts dollars into it. He may not put business there at all out of which money is made.

Q. But the consumer puts dollars in in order to earn more money. Let us take this one step further. I think your figures given an exaggerated impression when you mention this large amount of \$4,785,000,000. One would naturally think that was one year's profits whereas it is eight years' profits. I know that is mentioned above, but one gets the impression that it is one year's profits whereas it is \$600,000,000 per year; and the other figure you have quoted would represent \$450,000,000 a year, though you quoted \$3,562,000,000. That is not in accordance with what you said before. There is an impression here that there is a larger profit than there is. Going further down -- A. It has improved somewhat; you will agree it has improved.

Q. Oh yes; it sounds different -- \$3,562,000,000 as against \$450,000,000 per year. A. That is exactly what we are after, to lower that.

Q. That is what the cooperatives try to do? A. Yes.

Q. Is this a fair statement that you have here: "Even in the most favourable light from the standpoint of the general welfare, the people paid \$4,785,000,000 more than it cost to supply the goods and services in eight years", and so on. Do you think that statement is correct? First of all, there is depreciation and interest not charged up. Would you not say the shareholder is entitled to some return on his money? You are not allowing for that. A. In our cooperative we think that is not the important thing, the return on money.

Q. It is part of the cost of doing business. Money is worth so much for the use of it. There is evidence of that in your own credit unions where you pay a rate of interest on money you take in. A. Operating within their own membership.

Q. It does not make any difference; it is something you pay for the use of money and if you pay your members for the use of their money why should not shareholders be paid for the use of their money that they put in? If you make all these deductions it reduces that figure. There is another point here. You say the people paid this amount of money more than it cost to supply the goods and services "in order that the Government obtain about one and one-third billions in taxes, much of which had to be used in those first years to keep people alive who were on relief." Do you not think it is a good thing the Government did have that money to pay to people who were on relief? A. Yes,

but a lot of that relief went back to farmers and fishermen and in that period here is \$94,000,000 that was derived from food. Now food comes from the farms and the fisheries almost entirely.

Q. You mean that is where the relief money went?

A. I contend it was taken out in profits and the people had nothing left.

Q. But you say that this profit was used to provide relief, a good part of it. What would the people have done if there had not been that money to take care of relief?

A. I illustrated that in a number of places in the brief. If the farmer gets only two or three dollars for lamb that the market is paying twice that for he has nothing left in the country to maintain his services, and all you have to do is to go through the country to see that the services are not there.

Q. This money went to the Government and most of it was used, or much of it was used, you say, in the first years to keep alive people who were on relief. What would these people have done if there had not been this money with which to keep them alive? A. If the money had been returned to them cooperatively they would have had it. It would not be borrowed money or relief money.

Q. How do you know that this money was not made from people all over the country engaged in all sorts of businesses and not merely farmers or fishermen? It was made from businesses of all kinds including the 665 companies.

A. I gave the figures for dealing in food alone.

Q. What were they? A. 94.7 million dollars.

Q. How many people would be represented by that?

A. That would be for the same period.

Q. What does that \$94,000,000 represent? A. That is profits from dealing in food.

Q. That is a very small part of the total, which would indicate that profits were not really made from that source but from other sources and a pretty fair share went back to farmers, fishermen and people of all kinds?

A. Went back in relief?

Q. Yes. A. Well, you would not advocate that system?

Q. It did happen, though? A. It did, yes, and we don't want it to happen again.

Q. No one wants it to happen, but my point is, what would these people have done if the Government did not have those taxes? A. Probably these figures will be interesting to the Commission. They have been taken from the Canada Year Book, 1940, and they relate to the relief situation. In 1935 the Dominion gave direct relief amounting to \$51,000,000; 1936 \$48,000,000; 1937 \$53,000,000; 1938 \$32,000,000; 1939 \$20,000,000. We thought the country was spending tremendous sums in relief, but that is only small potatoes in comparison with these tremendous profits that were made in the same years.

Q. But you say that much of this was spent in looking after the people on relief. Where did that money come from? It came from industries of all kinds, not only farmers and fishermen and manufacturing concerns, but businesses of every description, and it was used to look after the people who needed assistance. My point is this: What would the Government have done if these taxes had not been available for these purposes? A. But all these costs of industry are paid for before there is profit. All

employees are paid and all costs are paid.

Q. But when there is profit the Government takes so much of it, and much of that money, I am pointing out, went to take care of the people on relief, as you say. I said it was a good thing the Government had those taxes with which to give that relief. However, let that point go. Following that up one step further, you agree that there were many people on relief back in those years?

A. Yes, over a million in 1935.

Q. How much did the cooperatives contribute towards looking after that relief in the country at large?

A. The cooperatives are trying to organize these very people.

Q. That is not the point. These corporations contributed a great deal to look after the people on relief at that time. How much did the cooperatives contribute for the same purpose in that same period? A. My contention is that it was the people themselves who contributed this money, not the corporations.

Q. The businesses contributed, because it was charged up to them. They made profits and the Government took so much out of those profits. Anyway, the answer is that the cooperatives did not contribute anything. Is not that the answer? A. No, it is not.

Q. Well, what did they contributed towards that relief? A. Directly in cash?

Q. Yes. A. In so far as they were operating and had any surplus it went back to the people so that those particular people did not need relief to that extent.

Q. But the other corporations contributed employment to their own people as well as relief in the form of taxes.

You say that there was no need of it in the cooperatives. I do not know whether any of your members were on relief or not, but is it not a fact that the cooperatives contributed nothing in general towards the relief that existed in those years? A. These cooperatives in the main are being organized by the people who, we think, were being exploited.

Q. That is not the question. The corporations contributed a great deal, and so far as the cooperatives are concerned the answer is, as far as I can see, that they contributed nothing to the relief that existed in those years. If that is not right let us know what is right.

BY MR. PARKER:

Q. Turn to page 14, the last half of the page. Is this association in affiliation with the Co-operative Union of Canada. Are you a member of that? A. Yes.

Q. In preparing this brief did you consult with the officials of that union to see if the views expressed here are in accord with those of the National Union? A. This brief was prepared independently.

Q. Be good enough to answer my question. A. There was some consultation back and forth.

Q. With whom did you consult? A. The Chairman of the Central Committee.

Q. Who is that? A. Mr. Good, for one.

Q. Has he read this brief that you are presenting today?
A. No.

Q. You are not in a position to say whether the views expressed on page 14 of your brief are in accordance with the views of the National Union? A. I have not had any official communication.

Q. Let us see what your views are: "Cooperative Field and Objective: Some who have been opposing the cooperatives during the sittings of this Commission have endeavoured to show that cooperation must be limited to some elementary function like forming a shipping club. They have said, or implied, that to process or manufacture takes the business out of the realm of legitimate cooperative activity." What class of people contend that? Whom do you refer to there as making that argument? What people have said that to process and manufacture has that effect? You say there are people who contend that would not be cooperative business. Who says that -- is it the mysterious "they"? Does it mean anybody in particular? In short, whom are you quoting? A. I cannot name anyone at the moment but I read the evidence given at Vancouver, for instance, and it is my distinct understanding that the implication was left there.

Q. I want your views. What do you say on that? It is a question of cooperative enterprise. Is the field open to all sorts of processing and manufacturing and the whole field of commercial enterprise, without any limit whatsoever? A. I have so stated.

Q. That is the width of the field, and your objective is ultimately to cover that entire field? A. The people themselves.

Q. Step by step, enlarging here and broadening there so as to occupy the whole field? A. Yes.

Q. Let us look forward to the time when you have accomplished that. What happens next? How do you propose to raise the revenues of the country, assuming that the whole field is tax-exempt so far as income tax is concerned?

A. From the people. It would fall on the individuals then, so far as income tax is concerned.

Q. There would be no corporation income tax of any kind? A. When you have reached that ultimate.

Q. That is the objective that you have in mind?

A. To me that is reasonable.

Q. And having reached that objective, where the cooperative method occupies the entire field and corporation income tax of necessity vanishes, as it would vanish in that case -- you agree with that? A. Yes.

Q. Having reached that stage, have you any information as to how much that would take away from the revenues of the country at the present time? Have you an approximate idea of how much revenue is derived from corporation income tax at the present time? A. No, I have no figures.

Q. It is approximately \$800,000,000, which represents about one-third of the total revenues of the country. Where would you propose to make up that one-third of revenue thus lost; by what system of taxation? A. It would be made up from the same people who contribute it now except that it would be more direct. It is the people who do business that contribute that.

Q. Through what method of collecting -- personal income tax? A. If the Commission wants something in the way of recommendations --

Q. I want an answer to that question. That is what I am asking. Are you in a position to suggest any scheme you have in mind, or do you suggest personal income tax on everyone? Do you suggest that is sufficient to make up the required revenues? Is that the scheme or have you thought about it? A. Yes, but any recommendation would

be contributed through the Co-operative Union of Canada, of which I am a member.

Q. What would be contributed through the Co-operative Union? A. If you are asking for recommendations.

Q. But you are here putting these views before us. I do not know whether you would agree with the Co-operative Union or not, and I want to know what your views are, if you have any. If you have any views as to how the loss of revenue is to be made up once you occupy the whole field I should like to have you tell me. A. In the case you outline, of reaching this ultimate, which is not a possibility?

Q. It is the desired goal? A. Well, if you reach that point, that is where the taxation would come from.

Q. Personal income tax? A. Yes.

Q. And having occupied the entire field, the commercial field, what would happen politically? What sort of system of democratic government would you have, speaking now of the governmental set-up? What effect would such a situation have on that set-up? A. Is that one of the questions pertinent to this inquiry?

THE CHAIRMAN: I think the question is fair enough, and it is not difficult to answer. If you get complete control of the entire enterprise of the country you will have complete control of the political field. If that is your ultimate objective, to gain complete commercial control of the country, then you automatically have complete control of the political field.

THE WITNESS: I think you are right.

THE CHAIRMAN: It is not very hard to answer.

BY MR. PARKER:

Q. I thought that would be your conclusion, and you

have no objection to stating it? A. Not to stating it that way.

Q. And I suppose when you do reach sufficiently near your objective to get substantially the majority control you will expect to make the minority conform to the cooperative way of doing business? A. Make them conform?

Q. Yes. A. No sir.

Q. You would not? A. Except that there are cases where, in a vote is taken on some certain commodity for marketing, for instance, if there is a Marketing Act, that might have a bearing on it.

Q. In other words, your political philosophy, in so far as it must of necessity be engrafted upon your economic philosophy, is this: When you have reached that stage that we have described there will be the elimination of all profit, and all business will be carried on for the benefit of the people? A. Their own business, yes.

Q. All their business would be the people's business? A. Those services in which they are directly concerned.

Q. And there would be the complete elimination of profits? A. As we understand profits, yes.

Q. That is to say, invested capital would receive no returns? A. No.

Q. There would still be invested capital? A. There could be.

Q. But would there be, according to your idea of that set-up? A. My personal ideas of the best cooperative set-up is that you would not have invested capital, you would not have stock certificates.

Q. Does it make any difference, as long as there is money put up to make the wheels go round, whom it is owned

by? A. We don't want stock certificates where the member may have moved away or would be no longer a patron. We don't want stock certificates that have perpetuity.

Q. This is the last question I will ask you. Your idea is that capital which would be used in carrying on the business of the country is entitled to some reward? A man now invests in a credit union or buys shares in a cooperative society or invests in an ordinary company. Do you consider that money is entitled to some reward for its services in the operation of the business, if that man goes to the southern states to spend a winter? A. Yes, but the people should decide.

Q. The people should decide how much? A. Yes.

Q. You agree that it would be entitled to some reasonable rate of return? A. We follow the Rochdale principles and they provide for that.

BY MR. ARNASON:

Q. I want to ask you two or three questions that are rather closely related to the subject under inquiry by the Commission, and that is the matter of taxation. I notice somewhere in the brief -- I do not recall where -- you refer to non-member business. At some hearings of the Commission the suggestion has been advanced that in so far as the cooperatives derive revenues from non-member business that revenue should be taxable. Do you agree with that? A. In my opinion it is just as subject to taxation as any other profit. The only thing is that there is this provision now in regard to the 20 per cent.

Q. But forgetting the law as it stands now, do you think that revenues derived from non-member business should be taxed? A. Personally I would say so, yes.

Q. Another suggestion that has been advanced at some hearings is this. It has been contended by certain individuals that when a cooperative invests part of its funds in Government bonds the income derived by the cooperative in the form of interest in those bonds should be taxable. What would be your view on that? A. I have not a definite opinion on it.

Q. Getting back to the matter of financing cooperatives, I believe that in the Maritimes, in which your cooperative operates, quite a number of organizations finance partly through the retention of patronage dividends on what is known as the revolving reserve plan.

A. Yes.

Q. Is it a common practice on the part of cooperatives, where a portion of the patronage dividend is retained as operating capital over a period, to pay interest on these deferred dividends? A. In some it is; in our cooperative it is not.

Q. At some of the hearings of the Commission it has been suggested that even though the members of the cooperative might by by-law, or by specific resolution, direct that money retained in the form of patronage dividends should not bear interest, there is some gain there nevertheless to the group as a whole and that in effect the group, that is to say the members of the cooperative, gain by reason of the fact that the cooperative is allowed the use of interest-free funds. It has been suggested by one or two officials that that fact should be recognized in some way and that while that gain may be difficult to measure, there should be some arbitrary measuring stick adopted as a basis for taxing the gains so made. For

instance, it has been suggested that if a cooperative defers 50 per cent of the patronage dividends, an arbitrary ruling should be made to provide that in effect the funds so retained should carry, say, a 3 per cent rate and that 3 per cent should be taxable as one way of measuring the gain to the group. Have you any ideas on that? A. I had not studied it before, but my first reaction would be that I could not see it that way. I think that the gain, if any, is to the member group. and that will reflect in the ultimate individual income.

Q. Another question. This is a rather tricky one, if I may use that expression. While it has been pointed out at previous hearings that the members may decide through by-laws or by contracts to leave a portion of the patronage dividends with the cooperative on the revolving reserve system, it has also been contended that the nature of the fund so retained does not change even though the payment is deferred for a number of years. Do you think that it would be more desirable as a matter of cooperative practice to stipulate by by-law or by contract some definite period for the repayment of these funds -- that is, to establish rather more clearly the definite legal liability to pay these funds back to the members? Just to illustrate the point. In the by-laws of some of our cooperatives it is left entirely to the discretion of the directors as to when the funds so retained are paid back to the members. Do you think that, as a matter of sound cooperative practice, there should be some reasonable but definite stipulation.

A. Yes. I think it should be outlined, but I also think it should be within reasonable access to the members to change their by-laws.

Q. But it would depend on the members? A. Finally, yes.

Q. Is it your opinion as a practical cooperator that all reserves of the average cooperative could be allocated to the members? A. Do you mean as you go along?

Q. Yes; allocate them all regardless of what their set-up may be, whether for contingencies or whatever it may be, with the idea of revolving them all eventually?

A. I believe I would be willing to face that kind of set-up. It is desirable to have some reserves.

Q. Do you think it would be practicable to provide that all of them be allocated? I may say that this question has been asked before of several cooperative leaders who have appeared before the Commission. I want your views.

A. My view is that as the members become well acquainted with the business it can be done that way. They would back it if they needed funds.

Q. It has also been suggested that where a cooperative pays interest on share capital that interest should be taxable. What would be your view of that? I might also say it has been suggested it should not be taxable. Don't get me wrong. A. I had never thought of it as being eligible for taxation. I don't know that I have studied that particular item.

Q. One more general question and I am through. You refer to the improvement in the quality of various agricultural products which took place coincidentally with the organization and development of these cooperatives. Would it be fair to say that one of the reasons for that improvement was that the very fact that the farmers organized into groups resulted in the establishment of more

satisfactory mediums through which government departments could operate to educate producers? A. I think that is an important factor. The other factor is getting the premium for quality directly back to the farmer.

BY MR. ELLIOTT:

Q. On page seven, discussing the effect of taxation on what you term the "usual price" custom, you state that such a policy of taxation "could only result in the really disturbing method of pricing the goods or services at cut rates as near cost as possible." Do you think that policy of basing the price on cost is practicable for a cooperative as a long-term policy? A. It is not desirable. It is best to have a margin of safety and pro rata it back.

Q. Do you think that in fact most cooperatives would be able to continue in business permanently and still pursue that policy? A. The percentage of casualties would increase.

Q. How would such a policy affect the probable growth of cooperatives? A. The growth?

Q. Yes. A. I think that under present conditions it would affect it adversely.

Q. Are there any other suitable methods, besides charging a margin, which you can think of that would be acceptable to the cooperatives from the point of view of expansion? I will reverse that. If the cooperative followed a policy permanently of charging as near cost as possible it would not be able to use part of the margin for expansion purposes. Are there any other methods of financing expansion that would be almost equally suitable? A. Probably not so easily. People have got accustomed to indirect taxation.

Q. You are referring to the calling in of part of the surplus for expansion when you speak of indirect taxation? A. No. People in practice are more willing to leave a surplus there as an operating fund than they are to contribute out of their own pocket.

THE CHAIRMAN: That is, to lend it back?

THE WITNESS: Yes.

BY MR. ELLIOTT:

Q. Have you had any experience in actually getting them to lend it back? A. After they got it?

Q. Yes. A. Yes, some.

Q. On an individual basis? A. That is, in putting up share capital, if that is what you mean.

Q. Either share capital or loans. A. Loan capital.

Q. Your opinion is that that is a less easy method of obtaining funds for expansion? A. Yes.

THE CHAIRMAN: It is not as fruitful a source from which to get loans?

THE WITNESS: It is easier for a group to make a decision to put it in for working capital.

BY MR. ELLIOTT:

Q. On page six you say that in order to obtain a charter in the first place it has sometimes been deemed necessary to forego certain desirable principles. Presumably then you believe that a cooperative does benefit from obtaining a charter? A. Oh yes, I think so.

Q. What are the chief benefits derived from the obtaining of a charter? A. Well, for one thing --

Q. I may be asking an obvious question. A. I don't know whether it is obvious to me, but we are operating in a business world which is organized into that general type

of structure: that is, they have charters. And there is also this point. If you are left as individuals, some individual has to take full responsibility and this provides the limited liability clause.

Q. In what way does the limited liability provision assist a cooperative -- chiefly in getting new members?

A. I have never thought of it that way. I don't think any member has.

Q. In raising funds? A. It is more in the legal sense.

Q. Will you explain that? A. How they are benefited?

Q. Yes. You speak as though it is necessary sometimes to sacrifice something in order to get a charter. Presumably then a charter must be of some advantage and I am asking what that advantage is. A. In an unincorporated group the directors, for instance, would have to be the responsible party if any advance were required from the bank or anything like that, and then it is a joint and several proposition. If it comes to a question of collecting on that security anyone may be the goat, so to speak. I don't know whether that answers the point.

Q. Does the mere fact of incorporation make it easier to borrow from the bank without the security of directors' notes? A. Not just incorporation in itself; at least I do not think so.

Q. I would not think so either. I want to know what you consider the advantage of incorporating consists in. Why do you not just go on without it? Is it just a matter of habit? A. I don't know. We have come to think of it as desirable. I don't know whether there is a better way or

not.

Q. Have you anything to add to your answer as to why you think it is desirable, and in what way it helps the cooperative to get along? A. Isn't the legal entity itself important?

Q. The fact that it may as a unit enter into an agreement? A. Yes.

Q. What about the question of being a unit as distinct from its members, so that it may deal more effectively with the disputes between it and the members? Is that an advantage or does anything of that kind ever happen? A. It happens.

Q. You cannot think of any other advantages? A. I had not classified them.

BY MR. VAUGHAN:

Q. Following up Mr. Elliott's first question with reference to page seven you say: "It should be realized that to legislate that cooperative business surplus accumulated under this 'usual price' custom must be taxed before dispersal could only result in the really disturbing method of pricing the goods or services at cut rates as near as possible." In England, as you know, taxes have been applied to cooperatives. Do you know whether that resulted in goods being sold on the basis you suggest or do they continue to carry on as formerly, that is before they were taxed? A. You say that in Great Britain they have been taxed on patronage dividends?

Q. No. You are right. They are not taxed; that is my mistake. In another part of the brief you refer to the buying of supplies in large quantities, I presume through cooperative wholesale. You do a considerable amount

of that with the idea of getting the best prices possible for the local cooperatives. In getting these prices through your wholesales, I suppose they are better than the prices at which the local merchant can buy merchandise? A. Very seldom in actual practice.

Q. What is the purpose of having the wholesale cooperatives? I thought the purpose of that was to join and be able to buy goods in large quantities and at the best prices. A. Prices that would compare with other wholesales.

Q. But I am referring to the distributor in the town. Your cooperative as a distributor will buy through the wholesale and that wholesale is able by reason of these large quantities to buy cheaper than you could if you bought on your own account? A. In periods such as the 30's, yes; in periods of goods scarcity, no.

Q. Take unusual times. Would you not through the wholesaler be able to get merchandise cheaper than buying direct, cheaper than the local cooperative? A. From the standpoint of the local cooperative.

Q. Your local cooperative is able to get a better price by buying through the wholesale because many local cooperatives join together and form a wholesale for the purpose of getting better prices? A. We usually go along as near as we can at the prices we know are customary.

Q. What is the purpose of the wholesale? A. If there is a gain they get the patronage dividend.

Q. You get it back in patronage dividend and your cost is less than it would be if you were buying direct. That means that through your wholesale, with the rebate you get, you buy cheaper than the local merchant in the same town? A. I don't know of any other merchants.

Q. The purpose of your wholesale is -- A. To make as good a deal as we can for the member we are operating for. If it is the consumer we want to get the product to him as reasonably as we can.

Q. It must be the purpose of the wholesale to buy at a lower price than the local cooperative could buy at, and your local cooperative would be probably on the same basis as the local merchant? A. Within the field we are operating in.

Q. Then how do you reconcile that with the statement you have here? You say there should be no monopoly control of needed supplies available to one distributor on a different basis than another. Your local cooperative is able to buy cheaper than the local merchant and yet you say that should not exist. A. I don't think we are able to buy cheaper.

Q. But isn't that the purpose of the wholesale? A. There might be a saving to them.

Q. Well, a saving; but there is no saving going to the local merchant while there is a saving that goes to the local cooperative. A. There is a good story that goes about monopoly if you want to start digging into that.

Q. I am applying it to your own business as compared with the local merchant with whom the cooperative competes. A. In our own business a lot of the supplies we cannot get our competitors get.

Q. I am not referring to that, but the purpose of these wholesales, I say, is to make a saving and whatever saving is made is passed on to the local cooperative and therefore the local cooperative can buy cheaper than the local merchant who is in competition with the local coopera-

tive. And yet you state in your brief that one distributor should not be able to buy on a different basis from another. Is that self-consistent? A. What about the distributor?

Q. You say that there should be no monopoly control of needed supplies available to one distributor on a different basis from another. I am putting your local cooperative on the basis of the local merchant with whom he competes, and I say that your local cooperative buys at a cheaper price to the extent that he gets rebates from the wholesaler?

A. That is the consumer, yes. He owns that business and it comes back to him if there is a saving; but where the monopoly comes in is that almost all this business is priced from some place entirely removed from here. It is priced before it leaves some place hundreds or thousands of miles away.

Q. I am comparing what you say now with what you say in the brief. You will agree that the local cooperative is able to get a better price to the extent of whatever saving accrues from buying wholesale, and to that extent his price is on a different basis from that of the local merchant?

A. If there is a saving made it goes to the consumer-member.

Q. It goes to the local cooperative, so that the local cooperative gets merchandise at a lower price than the local merchant? A. The local cooperative is there to give service and not to make profits.

Q. But it makes that saving on a different basis as compared to the local merchant, to the extent of that rebate? A. Yes, it is different. I cannot tell you what the other fellow gets.

Q. The wholesale exists for a purpose, and I am pointing out that you pay the rebates to the local and therefore the rebates must represent a saving which is passed on to the local cooperative, and that makes prices less to the local cooperative than those paid by the local merchant? A. Yes. There is a saving there.

Q. Therefore I do not think that is consistent with what you say in the brief, because in the brief you express the opinion that there should be no difference in the price to the distributor. The local merchant is a distributor and so is your local cooperative and that cooperative gets a lower price than the local merchant? A. Well, the local merchant and his wholesale can work that out.

Q. You say there should not be a difference in cost to distributors but there is actually a difference in your own organization. It goes to your own cooperative as compared with the local merchant? A. Not necessarily so.

Q. But you have rebates -- the local cooperative? A. If they make savings, yes.

Q. And they do make savings. We have a good deal of evidence of that, and to the extent of that rebate is there not a difference in price basis? A. But that is not due to monopoly at all.

Q. I am quoting what is in the brief. You state that the price should be the same to either distributor, whereas in fact there is a difference between the local cooperative and the local merchant to the extent of the rebate that is made. A. I think there is a difference, but it is not what you are pointing out. An organization will charge our cooperative one price and another organization another price for the same goods or the same class of service, or see that

we don't get goods at all while the other service gets it. If the goods are made available they should be open to the trade that is operating in the same class of services.

Q. And the local merchant should be able to buy at the same price as the local cooperative? A. But that is something that is between the wholesaler and the retailer in that case.

Q. You say the price should be the same to the distributors. Your cooperative is a distributor, and there is also the local merchant and those two are competing, and your cooperative gets a better price to the extent of the rebates; and yet you say in the brief that it should be the same for one distributor as for another? A. On the basis of his actual operations. He is paying about the same prices as far as we can follow prices.

Q. I do not understand that. Would there not be an advantage in the wholesale? On the wholesale basis there is a saving and that reduces the cost to the local cooperative and the price for the local cooperative must therefore be less than the price paid generally speaking by the local merchant; and notwithstanding this your brief says that the price to either distributor should be the same. A. From any one source it should.

MR. PARKER: I would like the witness to produce financial statements of the company for the last ten years. I understand they are being prepared.

THE WITNESS: I have not ten years prepared.

MR. PARKER: How many years have you?

THE WITNESS: I think I have five.

MR. FRANCIS: That will be made available.

MR. PARKER: And a couple of years pre-war.

THE WITNESS: This will be confidential information for the Commission?

THE CHAIRMAN: It will not be published.

MR. FRANCIS: I have no questions. There is one document I wish to have filed through the witness. It is a statement of the differential dividends paid by his company. It ranges from one-third of one per cent up to six per cent. I wish to file that. Mr. McEwen will furnish the financial statements and commodity statements.

THE WITNESS: I cannot get them while you are here.

MR. FRANCIS: You will undertake to do that?

THE WITNESS: For five years.

MR. PARKER: We should have seven years. Give us a couple of pre-war years, 38 and 39.

THE WITNESS: I will try to do that.

The Commission thereupon adjourned to meet on Saturday, March 3rd at 10.00 a.m.

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Moncton,
Saturday,
March 3, 1945.

The Commission met at 10.00 a. m., Mr. Justice McDougall presiding.

MR. PARKER: I suggest that we proceed with the Madawaska brief.

MR. FRANCIS: I am appearing for this Association and would call Mr. Soucy.

H. J. SOUCY,

General Manager,
La Co-operative Du
Madawaska Limitee,
having been duly sworn,
testified as follows:

BY MR. FRANCIS:

Q. You are the General Manager of this Association?

A. Yes.

Q. How long have you been General Manager?

A. Since September, 1938.

Q. How many members have you in your Association?

A. Approximately 1,900.

Q. In general, what kind of Association is it? What departments have you? A. Creamery and feed store.

Q. I understand that for the most part the members of your Association are French-speaking? A. Yes.

Q. And you have a group of Danes? A. Yes.

Q. People of Danish origin? A. Yes.

Q. Who prepared this brief? A. I did.

Q. On whose instructions? A. The Board of directors.

Q. After the brief was prepared was it submitted by you to the Board of Directors? A. Yes.

Q. And has it been approved? A. Yes.

Q. Have you been authorized to appear before the Commission and present it on behalf of the Association?

A. Not authorized but obliged to.

Q. You were instructed to do so? A. Yes.

Q. Will you read the brief? A. Yes. It reads as follows:

"La Co-operative Du Madawaska Ltee -- Edmunston, N. B.
Submission to the Royal Commission on Co-operatives.

"Cooperative Outline:

"Cooperative associations have always been organized in view of giving services to their members. This was the ideal which prompted the pioneers of Rochdale in their venture of 1844.

"Self-help and protection is their main motive. No cooperative is organized for profit or to evade any laws of the country. None is organized without first a lot of study, study to find out what is wrong, study to find the ways and means of correcting these wrongs, study to improve financial, intellectual and moral and social conditions of those interested.

"Cooperative principles are first studied, then methods of organization, administration and operation of associations. The incentive to study, thus developed, naturally leads to research for the betterment of one's conditions in life, be it fishing, farming or any other occupation. Study to better develop the natural resources at hand and in this the nation as a whole profits from the individual effort of each citizen.

"This naturally leads to improvement not only of the financial standing of the individual but of the nation and still more important the intellectual, moral and

social standing is generally improved.

"Profiteering has been prevalent in ordinary business. It is from this that cooperators are trying to protect themselves. There has been developed a system of too many middlemen between the producers and the consumers. Far too much has been paid for ordinary services, on the ground that these services could be given only by experts. The cooperative idea is that the ordinary man can, if he wills to and is given a chance, provide himself with the same services at a far more reasonable price.

"Provincial Legislation:

"The above features were recognized by the Legislature of New Brunswick when it enacted laws providing for the organization of credit unions and other cooperative associations.

"After the passing of these laws the organization of credit unions and cooperative associations went ahead at a rapid pace. Figures and statistics on this have been or will be furnished to this Commission by others better informed on the subject.

"It should be noted that Co-operative Acts in New Brunswick are under the supervision of the Department of Agriculture.

"La Co-operative Du Madawaska Ltee:

"This Association was organized in 1938 by a group of farmers most of whom were furnishing cream to an old creamery operated for many years by the provincial Department of Agriculture but the property of a private company which had been unable to maintain same in operation. The Department had kept the plant in operation because the closing would have been a severe set-back to the dairy

industry in the region.

"Farmers were beginning to realize the importance of this industry in comparison to lumbering which had been carried on for decades. They felt that to keep their sons and daughters on the farm they had to make farm life more interesting and profitable. The progress of the dairy industry would lead to other improvements which would help in keeping the younger generations on the farm.

"The farmers felt that if they took charge of this first service that they could later on manage to service themselves to advantage in other lines with the idea of bettering their own lot and by so doing help the country and the nation as a whole.

"Their expectations were fully realized for the farmers of Madawaska now have their own grain grinding and feed mixing plant in addition to the creamery. They own the trucks which collect their cream. They own, among them, a warehouse with storage capacity to take in grains, feeds and other farm necessities in sufficient quantities to prevent any shortage of feeds during the winter months. They thereby cooperate with the Federal Government in relieving the railways from such shipments during the winter months when all the railroads are pressed for transportation of war supplies, personnel and handicapped by storms.

"They have also assisted in the organization of a farm mutual which now covers a million dollars worth of farm property, the majority of which had no insurance before.

"Legal Set-Up:

"The legal set-up of the Co-operative du Madawaska is that of any other cooperative association organized under the N. B. Co-operative Associations Act. This is certified to by the attached memorandum of incorporation duly signed

by the Registrar of cooperatives and the Minister of Agriculture for the province.

"Control:

"Control of the Association and its activities rests with the members who meet twice each year to receive the reports of the Board of Directors elected by the members. The members decide all questions of administration, operation or development presented for discussion either by the Board or by the members present.

"Up to the present the auditor of the Association has presented his statement to the annual meeting of the members.

"Capital Set-Up:

"The nominal value of shares is \$50. A member may own as many shares as he desires but he has the right to only one vote no matter how many shares he may have.

"Interest at the rate of 4 per cent is paid annually on paid up portion of shares. This is in accordance with the cooperative principle that capital should receive a fair remuneration.

"A large number of shares have been paid by deductions on cream cheques, others by patronage dividends when declared payable by a general meeting. Shares are not transferable unless approved by the Board of Directors. This is a protection against speculation.

"Membership:

"Membership is open to all. Any person sending cream to the creamery or patronizing the Association's store if not already a member is considered as an affiliate member with the right to attend meetings, and discuss at such meetings affairs and operations of the Association. He is

also given the privilege of voting. The affiliate members are paid patronage dividends equal to one half the rate paid to members.

"Dealings with such affiliates are imposed on the Association by circumstances peculiar to the region. In most parts of the county no other creamery gives them the service. In regards to grains and feeds no merchant was equipped or seemed desirous of giving the service the association has now set up, especially at certain times of the year, in winter for instance.

"Departments Organized:

"As previously mentioned the Association was first organized as a creamery but with the view of setting up other needed services for the farmers. The second step was to organize a grain and feed store. This developed into a grain-grinding and feed-mixing plant.

"Fertilizer-sales were later added with other lines of necessities for the farm such as insecticides, fungicides, etc.

"Trucking services were also organized for the collection of cream and deliveries of grains, feeds, seeds, fertilizers, etc., to the farms.

"The creamery has been maintained in production twelve months a year. This has been the cause of quite an increase in butter production during the winter months. Not sufficiently large yet to take care of the local needs but an improvement over previous conditions. Butter production from November 1, 1939, to March 31, 1940, totalled 7,851 pounds, while during the same period of 1943-44 it amounted to 23,314 pounds.

"Butter production for the whole year has risen from 107,000 pounds in 1937 to 158,000 in 1938 and 308,000 in

1944. To attain such an increase it must be apparent that herds have been increased, and better care given to these herds and better methods of feeding adopted.

"It should be declared that these increases were not made to the detriment of other creameries. One other creamery was started in Victoria County in 1939. The two others have also increased their production not in proportion however to the cooperative.

"Disposition of Surplus:

"Any surplus or savings left over at the end of the year is distributed to members: members and affiliates. After the calculation of each member's business with the Association the amount of savings is apportioned to each according to the amount of business done with the Association, not according to the amount of money paid in on shares or the number of shares held by each member or affiliate.

"When the allotment is made, each member and affiliate is credited with what belongs to him. The payment is not made however at once, but is deferred until declared payable by an annual meeting of the members. At present the patronage dividends from 1938 to 1942 have been declared payable and have been paid to members and affiliated. These affiliates receive a credit on share account according to the provision of the Co-operative Associations Act of N. B.

"On such deferred patronage dividends no interest is paid. When an affiliate member has enough accumulated in credits and deferred dividends to cover the value of a share he becomes a member entitled to the full rate of patronage dividends as the other members.

"The savings made by the creamery are distributed or apportioned to those who have furnished cream to the creamery

and the savings from the feeds store are apportioned to the purchasers of such merchandise.

"The Association, as any other cooperative, does not operate for profit but to give services to its members. Therefore it must not retain the surplus or savings of any one year's operation but it must apportion these to each member or patron according to the amount of business transacted by such member or patron. Even if the Association was not compelled by law its surplus would be allocated because it desires to follow cooperative principles.

"Future Developments:

"From time to time there has been requests from members for additional services to be organized by the Association. The course followed will be this one: as capital paid in increases, additional services will be organized to meet the demand of members, which services will be organized it is difficult to determine. Members instructions more than anything else will indicate what new services will be developed. It may be said however that preference will be given to such services as proved more beneficial to the greatest number of members.

"Summary:

"The Commission has no doubt been supplied with many examples of financial, intellectual and social improvements the direct results of such cooperative ventures in different sections of the country.

"The poorer classes of society found out that they could enjoy life a little more, by this method of self-help. The necessary outcome of this was that they could afford better homes, better health could be their lot, and also, and most important of all, a more enlightened

spirit, and better intellectual and social conditions of living.

"These were the improvements for which the pioneers of Rochdale fought. The cooperatively minded of today are striving to attain the same ends. They have a right to these things and where is the man who can deny his neighbour the possession or the employment of the same things he possesses, if his neighbour can attain them by his own efforts and by fair dealings.

"One needs only to keep in mind the figures previously mentioned, and a visit through the northwestern part of New Brunswick will convince any one of the benefits of such a cooperative association for a farming section. Better homes, larger acreage under cultivation, larger and better crops, increased herds, etc., one can see all this on a visit through Madawaska, Victoria and Restigouche counties.

"There should be no need for dole and grants in communities where cooperatives have been organized and where they are operating properly. By raising the economic status of the poorer classes the Co-operatives Act as a safeguard against the spread of subversive ideas, for it is generally known that the discontented are more apt to succumb to such ideas and help to propagate them.

"Canada has taken an important part in the development of cooperatives. The first credit union in America was organized in this country. Canada has attained world-wide recognition for its methods of cooperative education. Why should this country of ours now destroy the good name so attained by adopting legislation injurious to cooperatives.

"It was generally understood that cooperatives such as La Co-operative du Madawaska, Ltee., were not subject to income tax by virtue of section 4 (p) of the Income War Tax Act. Therefore no provisions were made for such taxes by La Co-operative du Madawaska, Ltee., its surplus being apportioned each year. Returns were made to the Inspector of Income Tax every year as requested but it was not until 1943 that an assessment notice was received for the years 1938, the year of organization to 1941. As no provision has been made for an amount to cover such taxes it is obvious that pressing any assessment would place the Association in a very disadvantageous position.

"Be it said in closing that Canadian cooperatives are not striving to be completely exempted from taxation. We leave it to our central organization, the Co-operative Union of Canada, to present the wishes of cooperatives in this regard.

"We may say that La Co-operative du Madawaska has paid in 1944 the sum of \$393.30 in county and school taxes. Moreover the deduction at the source from salaries of its employees amount to over \$100.00 each month. Most of these employees were not in the tax-paying class before.

"We feel confident that the members of this Commission will keep in mind the best interests of the country as a whole and especially the interests of the poorer classes who make up the great majority of the population and that co-operatives and their members will be treated with justice and fairness."

Q. You have attached to your brief a number of financial statements? A. Yes, and the by-laws and a copy of the charter.

Q. These statements that are attached, are they in the form in which they are sent to the members each year? A. As given by the auditor.

Q. These are the auditor's statements and they are mailed to each member? A. They generally go out at the annual meeting.

Q. But every member gets a copy of the statement? A. Yes.

Q. And this is for what year? A. 1938 to 1944.

Q. And they tell the whole story as far as the figures are concerned. A. Yes.

Q. This company is organized under the regular Act? A. Yes.

Q. And it has been operating under it ever since? A. Yes.

Q. So that the story seems pretty complete and the picture pretty clear as to how you operate. There are a few pages I want to ask you some questions about. Let us begin at page one. You say that cooperative associations have always been organized with a view to giving services to their members. We have heard a lot about this word "service". Apparently all cooperatives use it. I have suggested before and I suggest to you that what you really mean by services is to find a method of doing business so that the members can get more money for their produce and obtain at a lower price than they otherwise could those things that they wish to purchase. Isn't that the real object of the associations? A. Not always.

Q. Well then, in some cases? A. Yes.

Q. As a general rule that would be so? A. Yes.

Q. You say "self-help and protection is their main motive." That is another way of saying that the kind of self-help you have in mind, and the kind of protection you are thinking of, is help financially? I know that other things go with it, but underlying it all is financial self-help? A. Yes.

Q. You say: "No cooperative is organized for profit." I have heard that before. Nor is it organized "to evade any laws of the country." Do you know of any business that is organized to evade the laws of the country?

A. Not openly, but they may be.

Q. Do you know of any concerns that are organized to evade the laws of the country? Why pat yourself on the back and say that you don't evade the laws? Are you in any better position in that respect than anyone else?

A. There is no man today who doesn't evade some law.

Q. Then you say that you began by studying to find out what is wrong. What is wrong with what? What do you mean by "what is wrong"? A. One's condition financially, economically and intellectually.

Q. Is it to find out why you can't get more for your produce or why you pay so much for the things that you buy?

A. In some cases.

Q. Economic wrongs? A. Not always; there are some other wrongs.

Q. What other wrongs have you in mind? A. Poor homes that can be made better, and better schools.

Q. Then you say, "study to improve financial, intellectual and moral and social conditions of those interested." Is that the order of their importance?

A. Is the organizational operation of these associations what I mean? A. Yes.

Q. At the bottom of the page you say: "The incentive to study, thus developed, naturally leads to research for the betterment of one's conditions in life, be it fishing, farming or any other occupation" -- that is, all the things that cooperatives do? A. Yes.

Q. Don't private concerns do the same thing? A. Yes.

Q. And doesn't Government agency do the same thing? A. Yes.

Q. Then you say: "This naturally leads to improvement not only of the financial standing of the individuals but of the nation and still more important the intellectual, moral and social standing generally is improved." And then you say that speculation and profiteering have been prevalent in ordinary business. What has that to do with the question of taxation? Will you explain that to us? Those are strong words.

THE CHAIRMAN: "Profiteering" is the only word left; "speculation" has been struck out of the brief.

BY MR. PARKER:

Q. What do you mean by profiteering? A. Excessive profits.

Q. A profiteer is anyone who wants a profit. That is the literal meaning of it, one who seeks profits.

A. Not exactly; reasonable profits are all right.

Q. And who is the judge of what is reasonable?

A. It is hard to say who is to be.

Q. I should think so. Some people somewhere have been taking too much? A. We have examples of that.

Q. Can you give us a few? A. Take spray lime. That is used for spraying potatoes. Spray lime costs \$12.60 a ton.

Q. Where? A. At Edmunston, any time, today or tomorrow -- well, not tomorrow; that is Sunday.

Q. That is the price charged by cooperatives? A. No, by the wholesaler, and that has been retailed in Edmunston at 70 cents a package, that is over 100 per cent profit. I consider that excessive.

Q. Do you take into consideration all the factors? A. The cooperative is selling the same at 45 cents a packet and making money.

Q. They are not paying taxes. Might not that account for some of the additional spread? A. It might, but I don't think it does, because the margin is too wide.

Q. Then you can go on in the last paragraph to elaborate that somewhat, dealing with the middleman. When middlemen are in business they are entitled to some fee for their services, are they not? A. Certainly.

Q. And the object of the producer is to add that amount that the middleman gets to what they get. It merely shifts it from one to the other. Isn't that what it amounts to? A. Yes.

Q. You think that is a fairer way? A. Yes.

Q. Come to page two. You speak about the progress they made after passing certain laws. You say: "Figures and statistics on this have been or will be furnished to this Commission by others better informed on the subject." Who is better informed on that than your Association and where do you expect we shall get that information? A. That information was given yesterday by Mr. Keohan, the Registrar and Inspector of Cooperatives.

Q. That is what you mean by that? A. Yes.

Q. This Company of yours had its origin in the concern being operated under the provincial Department of Agriculture and it carried on for many years before the Association was organized, so that the Company was built on the foundations laid by the Department? A. Yes.

Q. And it was in fairly good shape when you started -- the general situation? A. Yes, the situation had improved.

Q. And it was easier for this cooperative to get under way by reason of the preliminary work done by the Department than it would have been in a community where no such work had been done. Is that a fair statement? You say the private company had been unable to maintain it. What do you mean by that? A. It must have been so because the Department of Agriculture had to take it over and keep it in operation.

Q. How do you know they had to? A. They did.

Q. Perhaps they wanted to. Who forced them to take it over? A. I don't care; I am not in the Government.

Q. Why were they forced to take it over?

A. To keep it in operation.

Q. You say they felt they had to make farm life more interesting and profitable. That is a dangerous word for cooperatives to use, isn't it? A. Not entirely from the farm point of view.

Q. Farmers want to make profits as much as anyone else, and they are entitled to it. A. Sure.

Q. And they work for profit? A. They are human like anyone else.

Q. You say: "The farmers felt that if they took charge of this first service they could later on manage to service themselves to advantage in other lines with the idea of

bettering their own lot and by so doing help the county and the nation as a whole." Do you mean bettering their own lot financially? A. Yes.

Q. Other things go with that, but that is the object, and that applies to all of us. Personally, if my income goes up a little I feel I am getting on a little better, and that is common to human beings everywhere. A. Yes.

Q. Come to the other departments that you have mentioned. Are they organized under separate companies or are they various departments of one? A. Various departments of the Association.

Q. And in operating these various departments do you keep each department's accounts separately so that you can tell which departments are paying and the departments that are not, or are they all merged into one general business? A. As far as capital is concerned, as far as expenses and revenues are concerned, it is separate.

Q. The total sales of each department are kept separately, and the overhead and all that sort of thing is properly apportioned between the several departments in order to see how each department comes out at the end of the year? A. Yes.

Q. And your returns or dividends are paid back to the people who deal in these particular departments and shared in proportion to the way in which each department comes out? A. Yes.

Q. They are not separate companies? A. No.

Q. On page three there are some things I wish to ask you about. A word about farm mutuals. Have you your property insured in one of these farm mutuals? A. No. I am Secretary-Treasurer of a farm mutual and four directors of the cooperative are directors of the mutual

Q. Do you keep your property insured in this Association? A. No. It can't be insured in mutuals because mutuals can't cover commercial risk.

Q. If you became a member of a mutual? A. It can't.

Q. You say that control of the Association and its activities rests with the members. In distributing surpluses at the end of the year who makes the decision -- the members at the annual meeting or the Board of Directors? A. The Board of Directors, but it must be passed by the members.

Q. They make a tentative apportionment and it is submitted at the annual meeting to have it approved or rejected or amended? A. Yes.

Q. What has been your experience of the attendance at annual meetings. How many do you get? You have 1,900 members? A. Yes.

Q. What would be the average attendance? A. Between 250 and 300 members.

Q. The rest don't very often attend? A. One year maybe one part will attend.

Q. Is it pretty much the same group that attends each year generally speaking? A. Not the whole 1,900.

Q. There are many who never attend? A. No.

Q. The same as there are many people who never vote in this country. How much share capital have you? I dare say it is shown in the annual statement, but you can't tell us. What is the subscribed paid-up capital?

A. Sixty thousand or a little over. That is paid in.

Q. And there are certain other shares partly paid for? A. Yes.

Q. How much cash on hand have you from these shares partly paid for, approximately? A. Paid on account of shares?

Q. Yes. A. Possibly ten thousand.

Q. Those shares that are partly paid for are shares which have been allotted to members or rather the people doing business with the Company who have not yet become members and out of their share of surpluses that have been credited with something on account of shares? A. Not all of it, some of it.

Q. And some of it represents people who asked for shares and only paid part? A. Yes.

Q. I understand from your brief that those people who are not members but who have delivered cream to this creamery because there is nowhere else to deliver it are affiliate members? A. Yes.

Q. And deductions are made from their cream cheques and applied on share capital purchases? A. Not on cream cheques.

Q. Or on milk, or what? A. On the patronage dividend.

Q. What would be coming to them in patronage dividends? A. The different cream shippers have worked for shares and we keep a dollar from cream cheques on account of shares until it is paid.

Q. What do you get, milk or cream? A. Cream.

Q. Do some people send cream who are not shareholders when they begin shipping? A. Yes.

Q. At the end of the month, or whenever the cheque goes out to them, do you hold a little back and apply it to the purchase of shares? A. No, we send the full amount.

Q. How do they ultimately become members?

A. By the credit.

Q. Of the patronage dividend? A. Yes.

Q. So that at the end of the year instead of sending them their patronage dividend that amount is applied to the share? A. Yes.

Q. What is the amount of the share? A. \$50.

Q. So that patronage dividends are withheld until he has a credit of \$50? A. Yes.

Q. How long does that take? A. Five or six years.

Q. During that five or six years while he is accumulating the \$50 he attends meetings? A. Yes, if he wants to.

Q. And it is during that period while his share is being paid for that he is designated an affiliate member?

A. Yes.

Q. And having completed that he becomes a full member?

A. Yes.

Q. And a share is allotted and sent to him?

A. Yes.

Q. Does he sign an application form to become a member? A. Not necessarily.

Q. I don't care whether necessarily or otherwise, but is there any application form that he is invited to sign, as a matter of fact, asking to become a member?

A. Yes, we have an application form.

Q. Have you a copy? A. No.

Q. It is a printed form? A. Yes.

Q. "I hereby apply for membership": Is it anything like that? A. No; it is more in the form of a note. It is a combined application and note form.

Q. He sort of applies for a share and permission to pay for it? A. Yes.

Q. Through this method of deduction?, A. Yes.

Q. When does he ask to sign that -- when he makes his first shipment or when you send a notice that he has a credit at the end of the year, or not until the amount is credited? A. As far as patrons are concerned, we have never canvassed.

Q. But I am asking when he signs this combined application and note form that you speak of. Is it when he delivers his first shipment or at the end of the first year or when you send notice, or at the end of three, four or five years after he is credited with \$50 that he signs this document? Or does he sign it at all? A. He does not sign it at all, and when he is a full-fledged member he is sent the certificate.

Q. He becomes a member by reason of doing business with the Company, by reason of the decision of the directors, after he has paid for the share and the share is sent him? A. Yes.

Q. Well, who is it that signs that form? What is that form used for? A. I don't get what you mean.

Q. This printed form which you say is a combined application for membership and a sort of promissory note to pay for the shares -- some people must sign that? What kind of people are they? A. Mostly farmers.

Q. At what stage -- when they begin shipping, after they have shipped for a period, or do all shareholders sign? A. No.

Q. What people do, what type of member signs? A. Parties who come into the store.

Q. Perhaps you are thinking of people who buy things from the store and do not ship cream. Are those the people who sign this? A. No.

Q. Who does? A. Both kinds of patrons, those who furnish cream and those who have dealings with the store.

Q. At what time do they sign it? Suppose I move into that community tomorrow. I look over the situation and if I buy cream at the store and put in my first week's order for groceries or whatever it happens to be, I am not a member when I walk out? A. No.

Q. I have not signed anything. You will sell me goods the same as anybody else. How do I become a member? Tell me how I become a member. A. You become a member by getting patronage dividends.

Q. When? A. At the end of the year.

Q. Suppose I have done business enough so that my patronage dividend, when it is worked out, comes to \$15 and I get a notice from the office that I have that credit, I do not actually get money? A. No.

Q. I get a notice that you have \$15 for me and what do I do? A. You keep doing the same thing.

Q. For three or four years and then I have a credit of \$50? A. Yes, and then you get a certificate as a member.

Q. And owner of a share? A. Yes.

Q. Up until that time I have been invited to sign an application or have I been asked to become a member or am I made a member whether I want to or not, automatically? A. You may have been.

Q. Perhaps in some cases I may have signed up the first day I walked in. But suppose I am one of the fellows who don't want to sign anything. What happens to me? I just

become a member as a result of dealing with the store without being asked to become a member? A. We consider everyone free. If they want to come in, okay; if they don't want to they will keep on doing business the way they did before, that is, without becoming a member.

Q. Suppose at the end of two or three years I have \$50 and I walk in some day and say I want that \$50; I am not interested in the cooperative and I don't wish to become a member; I don't want a share of stock but I want my \$50. What happens?

MR. FRANCIS: Mr. Chairman, I can save time --

MR. PARKER: I don't want to be interrupted.

THE CHAIRMAN: Let the witness answer. I think he can answer that question.

BY MR. PARKER:

Q. What happens? A. What will happen is that this request will be presented to the Board of Directors and if approved he will get his \$50.

Q. It will be put to the Board of Directors and the Board might say, "No; send him a share." What is the principle of the thing? What is the individual's right? Can he demand his rights? If the directors said, "We are not going to give you the \$50, we will give you a share and that is all", what happens? Has that sometimes happened? A. No.

MR. FRANCIS: I thought I could save time by reading into the record Section 36, subsection 4 of the Cooperative Associations Act of the province of New Brunswick, Chapter 67 of the Revised Statutes: "The amount apportioned to any non-member in the preceding subsection 3 shall not be paid to him but shall be credited to him on the books of the Association towards the payment of a share in the

Association, and when the amount so credited to a non-member amounts to the full par value of his share in the Association, the share shall be allotted to such non-member, who shall thereupon become a member of the Association. Any surplus to his credit over and above the par value of the share so allotted to him shall be paid to such non-member." That is a matter of law.

THE CHAIRMAN: I suppose this organization cannot deal with non-members? There is no such thing.

MR. PARKER: That is the whole point.

THE CHAIRMAN: He is an affiliate member from the moment he makes the purchase, so that having regard to Section 4 (p) they cannot deal with non-members in this organization. There is no such thing.

MR. FRANCIS: "Affiliate" member is a local term.

THE CHAIRMAN: The affiliate member votes.

MR. FRANCIS: It is an unusual situation.

THE CHAIRMAN: It is, from what we have seen elsewhere.

MR. FRANCIS: The point I want to make is that the inference was left that it was a matter of discretion on the part of the Board as to the issue of the share. It is not at all; it is a matter of law.

MR. PARKER: I assumed that the General Manager had read the by-laws but apparently he is not familiar with them.

BY MR. LARNASON:

Q. Before leaving the question of affiliate members, is an affiliate member permitted to become a director?
A. No.

BY MR. PARKER:

Q. Is that provided in the by-laws or is it a matter of practice? A. That is provided in the laws.

Q. We have dealt with the man who deals with the store. Does the same apply to the man who does not buy from the store who wants to send cream to the creamery? A. Exactly the same.

Q. I assume you will agree with this suggestion, that it is impossible to carry on successfully an organization such as yours without some share capital? A. I don't think it would be.

Q. How would you carry on if you had no share capital? How would you start in the first place? A. We would have to work within the area, I suppose.

Q. That does not make a very solid foundation for business in these competitive days. A little cash helps out. There would be no other way unless you went to a loaning institution and borrowed money and no association would get that without guarantee? A. Exactly.

BY MR. ARNOLDSON:

Q. Suppose you did not have share capital, do you think it would be practicable for your Association to borrow through what might be termed loan units -- loan capital which every member would be required to subscribe to at the time of membership? He would be required to maintain that loan in the Association as long as he was a member.

THE CHAIRMAN: You might buy a shoe string.

MR. PARKER: Yes; they are very useful in their place. What I am getting at however is that unless you have share capital or borrow money to get started you will never get started?

THE WITNESS: Certainly not.

BY MR. PARKER:

Q. And having got started, you have to have a reasonable amount of capital if you are to carry on the business in a

sensible way? A. Yes.

Q. That capital, where share capital or loan capital under the loan unit scheme which Mr. Commissioner Arnason has referred to, or whether it is an ordinary straight loan from the bank or anywhere else, is necessary. You agree that capital, without which a business cannot operate, is entitled to a fair return? A. Yes.

Q. By way of dividend or interest? A. Yes.

Q. And there might be different opinions as to what a fair return would be? A. Yes.

Q. That would depend on how vital the capital was as compared with labour, materials and other factors that enter into a prosperous business? A. Yes.

Q. You mention at the bottom of the page that these shares are not transferable unless approved by the Board of Directors. That is the same thing as happens in an ordinary company -- or are you familiar with the operations of ordinary companies? A. No. Pardon me, I'm not saying I'm not familiar; it is not the same thing.

Q. How are shares in a company transferred?

A. They may be transferred any way, by buying them over the counter.

Q. Don't they have to be transferred on the books of the company? A. Yes; but these shares of the co-operative can't be bought anywhere else. There is no transaction that can take place about them without the consent of the Board, as a protection to the farmers.

Q. And you say that is a protection against speculation. What do you mean by that? A. It is not bought up in a few hands.

Q. At the top of page four you have reference to the affiliate member. What I do not understand is the justice of

giving the affiliate member only one-half of the rate of the full member. Is not his cream as valuable and does it not contribute as much to the success of the business? Why should there be a distinction? What principle of justice or fairness or equity is there in that? A. He might take it as an incentive to become a member.

Q. Is it an indirect way of building up membership?

A. Yes.

Q. Do you think that is a completely voluntary method of procedure? A. We don't force them to do it. They are free.

Q. There is no physical force but the compulsion is pretty powerful nevertheless. You say: "Dealings with such affiliates are imposed on the Association by circumstances peculiar to the region." What are those peculiar circumstances? Is it because there is no one else in the vicinity to take their produce or supply their requirements?

A. Yes.

Q. Isn't it rather taking an advantage of these people to say, "We won't refuse to deal with you but we will only deal with you on terms that put you in a worse position than those who come voluntarily and cooperate with us." It does not seem fair to me. A. We leave them free.

THE CHAIRMAN: The answer, I should think, is that there has not been any investment up to that point.

BY MR. PARKER:

Q. Is that the answer? Whatever the reason, I am suggesting that in the result there is discrimination against the man in the community who cannot do business anywhere else and who is forced to do business with this cooperative. He does it on a basis which is not financially as good to

him as it is to others.

THE CHAIRMAN: I am not the witness, but I could answer that one too.

BY MR. PARKER:

Q. That is what we are looking for. Anyway, that is what you have in mind when you say that there is no other centre in which they can dispose of their cream? A. Yes.

Q. You have dealt with the separate departments. At the bottom of page four you give figures showing the increase in butter production from 107,000 pounds in 1937 to 158,000 pounds in 1938 and in 1944 it was 308,000, about double what it was in 1938. Are you suggesting that this increase is due to the good offices of the cooperative society? A. Mostly.

Q. Do you not give a considerable portion of the credit to war conditions and all that goes with that? A. Some.

Q. Do you not give a great deal of credit to that? A. Not in our section.

Q. How is it that war conditions do not affect your section as they do others -- or is your section peculiar in that respect? A. Butter production in our region was 308,000 pounds in 1944 and taking the seventeen communities, they should be producing over 3,000,000 pounds of butter each year. The dairy industry started ten years ago.

Q. What I am asking you is whether that increase from the year 1938 to 1944 was not largely due to general war conditions? If you say it is not due to that cause, then that is your view. A. Between 1937 and 1938 there was no war on and the increase was 50 per cent.

Q. I am not suggesting that the cooperative has not been responsible for part of the increase but I am trying to get a fair division in apportioning the credit. I am not seeking to take any credit away from the cooperatives, neither do I want you, after you think it over, to minimize the results that flowed from the war conditions. Let us be fair about it. You still think that only a small proportion of the good result is due to war conditions?

A. I can't say the exact percentage.

Q. As a matter of fact, isn't it a large part of it?

A. Large or small, it all comes down to a percentage basis.

Q. Put it on a percentage basis then. A. I admit there is some portion of it due to that cause.

Q. Would you go to this extent with me, that the war conditions helped your plant just as much as it helped the non-cooperatives? A. Certainly.

Q. And they increased a great deal too although not as much as yours? A. Yes.

Q. On the next page you consider it important to announce that "these increases were not made to the detriment of other creameries." Did anyone ever suggest that they were? Why do you feel called upon to say that? Is there any point in it, or is it something that is thrown in for good measure? However, if you don't care to answer the question you need not. A. No.

Q. You don't care to answer it? A. No.

MR. FRANCIS: He answered it in the brief.

BY MR. PARKER:

Q. If he does not care to answer it I do not intend to press it. Now we have talked about the allotment of shares. At the bottom of page five you say that the Association does not operate for profit but to give services to its members. You operate in order to assist your members

financially, both in what they sell and in what they buy. That seems to be reasonable? A. Service is the main motive.

Q. Is not the main motive to get more for what you have to sell and to pay less for what you have to buy?

A. The financial gain is secondary.

Q. Financial betterment is secondary? Do you say that seriously? A. In some cases, yes.

Q. But in most cases? In your case, in the case of this Association that you represent, what do you say to that? Speak of your Association, the one that you know.

A. I don't get that question.

Q. Dealing with the Madawaska Association, on whose behalf you are here today, and knowing the members as you do, do you not think their primary purpose and motive is so to operate and carry on their business that they can get more money's worth for what they have to sell, and to buy at a cheaper price those things that they wish to obtain? Isn't that the core and centre and the very reason of existence of these cooperatives? A. No.

Q. It is not? A. Not entirely.

Q. Neither is it so in regard to other people, entirely. But isn't it the central and primary purpose of all business? You have made a considerable study of co-operative principles and I take it you are reasonably familiar with them, from the days of the Rochdale pioneers? A. Some.

Q. I am not suggesting that you are an expert, but you are reasonably familiar with them? A. Yes.

Q. The way this Association operates, these patronage dividends, worked out at the end of the year, are not paid immediately? A. No.

Q. I believe you hold them back for two years?

A. Yes.

Q. Has that been your policy since 1938, to keep two years behind, so to speak? A. The first payment was made in 1940, covering dividends for 1938.

Q. And 1941 for 1939, and so on? A. The balance of 1938 was paid in 1939.

Q. It is a sort of two-year plan? A. Yes.

Q. That is how you get your working capital?

A. Yes.

Q. You borrow occasionally from the banks at certain seasons of the year? A. Yes.

Q. Have you thought at all of this matter of taxation in preparing this brief? All our discussion leads up to the question of taxation. With reference to these dividends that you merely allot, I suppose books are kept so as to show what is to the credit of each member?

A. Yes.

Q. What are your ideas as to whether these items are taxable under the Income Tax Act? Why should not a co-operative pay income tax in respect of these? A. Because these moneys are the property of the members. It is a debt that the Association has towards its members.

Q. I might owe many debts, but if I earn an income the Income Tax Authorities make me pay my income tax quite regardless of those debts that I have to pay. On what ground do you say that this money held back should not be taxable in the hands of the cooperative? Is it because they are not in fact profits in your view or is it because of the exemption given under 4 (p)? A. We consider them savings which are rebated to the members.

Q. Are you familiar with section 4 (p)? A. A little bit, yes.

Q. Do you say that this Association should not pay taxes in respect of these two-year hold-backs by reason of exemption given you by Statute or by reason of the fact that they are not profits that belong to the co-operative? Do you see the point of the question?

A. They are not profits. They are something that belongs to the members.

Q. And therefore you do not require the assistance of section 4 (p) so that you will be relieved from taxes?

A. I don't get that.

Q. If you don't understand the question I will not bother you with it. One more question. On page six in the middle of the page you say: "The poorer classes of society found out that they could enjoy life a little more by this method of self-help." Do you suggest that the middle classes or even the well-to-do would have the same experience if they organized the same way? A. Oh yes.

Q. It is not a method particularly applicable to the poorer classes; it just happens that they are the ones as a rule that are engaged in this business? A. They needed it more.

Q. You say: "They have a right to these things and where is the man who can deny his neighbour the possession or the enjoyment of the same things he possesses?" I put that same idea to you from this standpoint: Why should anyone want to see his neighbours pay taxes and he himself go free from taxation? Where is the man who would want that? Is there such anywhere?

MR. FRANCIS: On the last page the witness says: "We leave it to our central organization, the Co-operative

Union of Canada, to present the wishes of cooperatives in this regard."

THE CHAIRMAN: That is a matter of argument in any event. It is a matter of the point of view of each particular citizen.

MR. PARKER: Is he speaking as an individual citizen in the brief?

THE CHAIRMAN: That question will be answered in the argument.

MR. FRANCIS: He specifically states that his directors leave it to their leaders.

MR. PARKER: Hasn't this Association any views on this matter at all?

THE WITNESS: On what matter?

MR. PARKER: On the matter my learned friend just referred to.

THE CHAIRMAN: He states that the brief of the Co-operative Union of Canada will cover the point on which you are questioning him.

MR. PARKER: I do not know why he says that.

MR. FRANCIS: I referred to the second last paragraph on page seven.

MR. PARKER: That is what I am talking about here. He asks a rhetorical question: "Where is the man who can deny his neighbour" and so on, and I ask him, where is the man who wants to see his neighbour pay taxes while he himself goes free? If it is an improper question I will not press it for the moment.

THE CHAIRMAN: I would sustain an objection to the question if we were in court, Mr. Parker.

MR. PARKER: Then I consider the question to have been

objected to and I withdraw it.

Q. On page seven you say: "Canada has attained world-wide recognition for its methods of cooperative education. Why should this country of ours now destroy the good name so attained by adopting legislation injurious to cooperatives?" I have two questions with reference to that statement. Do you suggest that anyone wants to destroy Canada's good name and, if so, who are they? To whom are you referring there -- some imaginary person or some real person? A. I don't get that question.

Q. I show it to you in your own brief. There is the sentence to which I call your attention: "Canada has attained world-wide recognition for its methods of cooperative education. Why should this country of ours now destroy the good name so attained", and so on. Is there anybody advocating the destruction of the good name of this country of ours? A. Not that I know of.

Q. Do you know anybody who is advocating injurious legislation? A. Injurious legislation to cooperatives, yes.

Q. What are they advocating that is injurious? A. Taxation.

Q. That would be injurious to cooperatives? A. Yes.

Q. Any more so than heavy taxation is injurious to ordinary business? Isn't such taxation injurious to business? A. If taxes are excessive they will be injurious.

Q. Well, they are pretty excessive now. Excessive perhaps is not the word, but they are pretty heavy? A. Yes.

Q. And aren't they heavy enough so that they are quite injurious? A. That is beyond my knowledge.

BY MR. FRANCIS:

Q. Will you refer to page three of the brief at the top of the page. My learned friend referred to mutual insurance companies. The paragraph to which I call your attention states: "They have also assisted in the organization of a farm mutual which now covers a million dollars' worth of farm property, the majority of which had no insurance before." Since you have assisted in organizing this farm mutual I assume you know something of the conditions. What were the rates paid, what was the coverage on farm buildings, prior to the organization of the mutual? A. All the way from \$30 to over \$40.

Q. Per thousand? A. Per thousand for three years.

Q. And since the mutual was formed what is the rate? A. A note signed for \$30 and cash payment of \$10.

Q. And to your knowledge has anyone had to pay anything on any note? A. No.

Q. And does the \$10 that has been paid cover the risk? A. More.

Q. And allow for a surplus? A. Yes.

Q. So that you feel your efforts in organizing the farm mutual were justified? A. Yes.

Q. With regard to the suggestion of my learned friend that your association was unfair in paying less on patronage dividends to non-members than to members, may I direct attention first of all to the law of New Brunswick and next to the by-laws. Referring to Section 36 of the New Brunswick Co-operative Associations Act, subsection 3, the latter part of the section, about the ninth line, states that if it is not provided by the by-laws then at the

discretion of the directors the rate applied to the volume of business done by the non-member may be less than the rate, but not less than one half of the rate, applied to the volume of business transacted with members.

THE CHAIRMAN: Is that applicable?

MR. FRANCIS: Yes; it is the law.

THE CHAIRMAN: Is that applicable to a man who gets a vote? He is a member?

MR. FRANCIS: Yes, my Lord.

THE CHAIRMAN: You are speaking of non-members there. This is a member; he must be a member.

MR. FRANCIS: Section 13, my Lord, says that every shareholder shall be a member of the Association and no person who is not a shareholder can be a member.

THE CHAIRMAN: How can some one vote if he is not a member?

MR. FRANCIS: That is by grace and not by right. The law says that no person who is not a shareholder can be a member. So that this is a legal term that they use.

THE CHAIRMAN: It is a very important legal term. If he can vote at meetings he can decide the policy of the Association.

MR. FRANCIS: That is true, and it is very unusual, but it shows the way they treat their patrons.

MR. PARKER: It does not say they must do it. They can pay the full rate if they want to.

BY MR. FRANCIS:

2. I refer to page five of the supplementary material in which you set out the supplementary by-laws of La Co-operative du Madawaska Limitee, No. 2: "No shares in the capital stock of this Association shall be allotted until 10 per cent of the par value thereof has been paid in

by the applicant to the treasury of the Association."

Is that right? A. Yes.

Q. What is the par value of one of your shares?

A. .50.

Q. So that it is necessary for a person to pay your Association as a contribution to capital the sum of \$5, and when he does that he is entitled to full patronage dividend? A. Yes.

Q. That is the obligation you impose upon him before you give him -- A. Full right of patronage.

MR. PARKER: Only \$5?

MR. FRANCIS: Yes.

THE CHAIRMAN: Are you making Mr. Soucy say he is not observing the by-laws or the law?

MR. FRANCIS: This is where they apply for shares.

THE CHAIRMAN: He does not need to do that. He supplies cream and he becomes a member.

MR. FRANCIS: There are two methods. According to one he automatically becomes a shareholder under Section 4. According to the other method, under the by-law he signs an application. The application goes to the directors and he pays \$5.

THE CHAIRMAN: Where do you find in the Statutes the right, by supplying cream, to become an affiliate member? I have not read it yet.

MR. FRANCIS: Under subsection 4 of Section 36.

THE CHAIRMAN: With the full right to vote?

MR. FRANCIS: Yes, absolutely.

THE CHAIRMAN: I will read the by-laws.

MR. FRANCIS: It is subsection 4 of Section 36, which says that the amount apportioned to any non-member --

THE CHAIRMAN: That is just it.

MR. FRANCIS: But Section 13 states that no person who is not a shareholder can be a member; therefore he is a non-member until he becomes a shareholder.

THE CHAIRMAN: That is a fine lawyer's argument.

MR. FRANCIS: Subsection 4 of Section 36 states:

"The amount apportioned to any non-member under the preceding subsection 3 shall not be paid to him but shall be credited to him on the books of the Association towards the payment of a share in the Association, and when the amount so credited to a non-member under Section 15 amounts to the full par value of a share in the Association the share shall be allotted to such non-member, who shall thereupon become a member of the Association." That is the law of New Brunswick. The point I wish to make therefore is this. Do you regard my learned friend's suggestion of unfairness as reasonable in view of the fact that, by the payment of \$5, one of your patrons or a person who wants to become a member can become a member of your Association?

THE WITNESS: No.

BY MR. FRANCIS:

Q. What is your staff? How many have you?

A. All the way from 30 to 40.

BY MR. ELLIOTT:

Q. In what year was the fire mutual organized?

A. In 1941.

Q. Will you tell us what percentage of business you do with your fellow-members -- roughly speaking?

A. About 30 per cent, I imagine.

BY MR. ARNISON:

Q. In view of your last answer to Professor Elliott, was that the reason why you were assessed for income tax, to which reference is made on page seven of the brief. Was it on the ground that you did more than 20 per cent of your business with non-members or was there some other reason? Do you recall that? A. The reason given by the inspector was the fact that we were processing cream into butter and grinding grains and manufacturing them into feeds and we were not considered cooperatives.

Q. Was that subsequently rescinded? A. No; it has been finalized.

THE CHAIRMAN: Is the word affiliate used in the by-law?

MR. FRANCIS: No. It is not used in any Statute or by-law that I can find.

MR. PARKER: Is there anything in the Co-operative Associations Act or the by-laws of which you are aware -- if you cannot answer this, Counsel can -- which makes it compulsory for you to pay only half the rate? Is it not perfectly free and open to the members if they see fit to pay the non-members or affiliate members the same rate as you pay the full member?

THE CHAIRMAN: It is that unfortunate word affiliate that spoils the picture. Mr. Francis says they are non-members until they become members and that is perfectly logical; but then the word affiliate comes in.

MR. FRANCIS: It is a local term.

.....

MR. PARKER: The next case is that of the Sussex Cheese and Butter Company Limited. The situation is this.

Some time ago a lengthy brief was filed with the Commission and it was expected that certain parties would appear in support of it, but I understand that, for reasons which need not be gone into now, Mr. Francis has control of the presentation, and some portions of the brief as originally filed need amendment in order to make the case complete. I suggest, if it meets the views of the Commission, that perhaps he can state in narrative form what portions of the brief he adopts or what portions can be deleted, and add any additional material he may see fit.

THE CHAIRMAN: Is the brief ready for presentation?

MR. FRANCIS: I thank my learned friend for the suggestion. It can be called and no one will suffer. We propose to ask that a good deal of this be withdrawn, and then we intend to call a qualified witness to give the actual situation. I have given a great deal of consideration to the advisability of making application for postponement of this case to Ottawa but the situation is such that the witnesses would not be available there without great hardship.

GEORGE B. WHALEN,

Director,
The Sussex Cheese and
Butter Company Limited,
having been duly sworn,
testified as follows:

BY MR. FRANCIS:

- Q. You are a farmer? A. Yes.
- Q. And you operate a large dairy farm? A. Yes.
- Q. You were for eight years Assistant Dairy Superintendent of the province of New Brunswick? A. Yes.
- Q. And for several years you operated creameries?
- A. Yes.

Q. You are very familiar with the dairy industry?

A. Yes.

Q. I would like to file first of all a certified copy of the resolution. This resolution was signed by the President and Secretary of your Association. Is this a true copy of the resolution passed at that meeting?

A. Yes.

Q. How many directors have you? A. Ten.

Q. How many were at the meeting? A. Seven.

THE CHAIRMAN: Is Mr. Whalen an official of the Sussex Cheese and Butter Company?

MR. FRANCIS: Yes.

THE CHAIRMAN: You have not brought that out yet.

BY MR. FRANCIS:

Q. You are a director of this Company? A. Yes.

Q. And you were present when the resolution was passed? A. Yes.

Q. There are ten directors? A. Yes.

Q. I direct your attention to the lower part of the resolution: "Be it further resolved." Under sub-heading 1, when the arrangement referred to there was made did you have a solicitor acting for you or your Association? A. Not at that time.

MR. FRANCIS: I would like to read a very small portion of the material. Although the brief is forty-five pages in length, a great deal of it is material set out at considerable length in the New Brunswick legislation, no doubt with a view to having it easily accessible to the Commission. It is not necessary to read more than one or two sections. It appears at first glance to be a long brief but a great deal of it is reference material. I think I should comply

with the instructions contained in the resolution to have all the submissions contained from page 42 to 45, with the exception of No. 4 struck out. I would substitute "respectfully" for "respectively" in the last line. Then referring to page four, I would read all the part up to the middle of the page and simply say that in October 1898 the company was incorporated. Referring back to page three near the bottom of the page I would read the paragraph beginning: "The corporate name of the association" and continuing I proceed to the bottom of page six of the brief. I suggest that the material on page eight stand but be not read. Pages nine, ten and eleven and twelve are irrelevant. It is not necessary to read them. The same applies to thirteen, fourteen, fifteen, sixteen, seventeen, seventeen A and seventeen B. Starting at page eighteen there is a very interesting collection of New Brunswick statutes which the Commission may find of value in connection with this presentation. I do not think it necessary that it be read. It gives the historical background. I would refer the Commission to Section 9 as set out on page thirty: "All elections shall be by ballot, and each member shall have one vote only for the share or shares held by him in respect of which he is not in default for any cause made thereon; provided, however, that the provisions of this Section shall not apply to any cheese or butter companies organized before the 1st day of December, 1917, 1918, c. 17." This amendment did not of course apply to this particular Sussex Association because it was organized in the 90's; therefore the position in that company is that each shareholder has one vote for each share held. At the present time this is all the information received from Mr. Keohan. An amendment is before the New Brunswick

legislature to make this retroactive to the beginning. It has passed the second reading but has not been given final reading. That is made applicable to this company. The difficulty has been control in recent years, and that will solve it to some extent. It is not necessary to refer to anything more until we reach page 36, and on page 36, paragraph 7: "No person shall be entitled to subscribe or hold more than eighty shares, or vote upon more than twenty shares of the company, either in his or her own right or by proxy." I call attention to that because it is proxy voting and there is this limitation. We then proceed to page thirty nine where one comment I make is that there is an individual case set out there. It is not necessary to read it; it is a matter of reference. Then I would omit pages forty and forty-one.

MR. PARKER: You are deleting forty and forty-one.

MR. FRANCIS: I am not reading it. It sets out a detailed list of shareholders. You will observe that one holds as many as thirty-five and one shareholder whose name is given at the top of page forty one holds sixteen. Continuing now to page forty-two, we have no objection to deleting the portion at the top of the page stand. I have already dealt with the submission. The submission that stands for what it is worth is No. 4 on page forty-three. Following that I would read into the record the submission approved by the Board as explained by the witness:

"That the Board favours the conversion of the cheese and butter associations established under New Brunswick legislation referred to in the brief to a bona fide co-operative association under the New Brunswick Co-operative Associations Act and that the basis of operation be changed in order to qualify under the said Act." I refer to the

evidence of Mr. Keohan yesterday and to the amending legislation of 1939 whereby, by section 104, the companies such as the Sussex were given the privilege of applying to the Minister for leave to convert from their status as joint stock companies to cooperatives. I intend to examine the witness briefly on this.

THE CHAIRMAN: That disposes of the reading of the brief.

BY MR. FRANCIS:

Q. Did I ask you whether you had been Assistant Dairy Superintendent of New Brunswick? A. Yes.

Q. How many shareholders have you in your Company? A. Sixty-three.

Q. And how many shares do you hold? A. For hundred and thirty-nine.

Q. Approximately how many patrons has your Company? A. About 1,950, I think.

Q. Just to get an idea of the size of the Company, what would be the range of herds of those 1,950 patrons? A. I would say from five to fifty cows.

Q. So that there are a number of large herds? A. Yes.

Q. The volume of raw product is very large? A. Yes.

Q. Does your Company buy the raw product or does it act as agent for the patron? A. It acts as manufacturing agent.

Q. Exactly what does it do? Does it get milk or cream? A. Cream.

Q. What does your Company do with the cream? A. We receive the cream and manufacture it into butter and ice cream and sell that on the market and return the

proceeds to the farmers less cost of manufacturing.

Q. Is there any formal agreement between the individual patron and the Company? A. No.

Q. It is a verbal arrangement, an understanding?
A. An understanding, yes.

Q. Do you in the distribution of the surpluses, after payment of expenses, make a distribution of --

MR. PARKER: Let him tell how he does it.

BY MR. FRANCIS:

Q. How does your Company distribute the surpluses arising from your business? A. At the end of the year the surplus is divided by the amount of butter fat received worked out on the price per pound basis, and every producer receives a certain bonus of so much per pound butter fat depending on the amount he has produced during the year.

Q. Does that apply to shareholders and patrons or just shareholders? A. Everybody, to all patrons.

Q. Whether shareholders or not? A. Yes.

Q. So that in the distribution you make no discrimination between shareholders and patrons?

A. No.

Q. In the matter of control, who controls your Company?
A. The control is divided. There are some shares that go by producers and quite a few shares by non-producers.

Q. Is not the control in the hands of the shareholders? A. Yes.

Q. And you have 63 shareholders? A. Yes.

Q. So that your Company is controlled by 63 persons?

A. Yes.

Q. Was it not brought to the attention of your Company that five years ago or thereabouts the law of

New Brunswick was changed so that you could convert your Company to a true cooperative? A. Yes.

Q. Why have you gone all these years without doing something about it? A. It was due largely to the set-up of the Board of Directors. This year the directors were composed of men from among the shareholders and at the annual meeting they removed all but producers from the directors. That is to say, at the present time the new directors consist only of producers.

Q. At the present time the Board of Directors consists only of producers and of course they must be shareholders? A. Yes.

Q. Don't give me the names but tell me the occupations of the directors who were not re-elected -- we will put it that way. Tell me the vocations of those directors who were not re-elected to the Board under the new ruling.

A. There was one provincial Government employee, one lawyer and two employees of the Company.

Q. They were not producing? A. They were not producing but were simply shareholders. They were dropped from the Board.

Q. Since you have had control of the Company in the hands of shareholders who are producers have you been taking any steps to convert under the law as provided in New Brunswick? A. The matter has been discussed at two directors' meetings since the last annual meeting. At the annual meeting the supervisor of the cooperatives of New Brunswick was guest speaker and there has been discussion.

Q. You refer to Mr. Keohan? A. Yes. He was at the annual meeting. He came as guest speaker.

Q. Referring again to the resolution, your Board now favours the conversion of your Company to a true cooperative?

A. I would say so, yes.

Q. You say it was discussed at the directors' meetings. How many directors' meetings have you had since the annual meeting? A. Two.

Q. Can you supply the Commission with a summary of the patronage dividends distributed to your patrons during the last few years? A. Yes.

Q. Have you got them with you? A. Yes.

Q. I will file it as Exhibit 2. Referring to Exhibit 2, from the year 1921 to the year 1944 inclusive, surpluses accumulated on behalf of patrons amounted to \$446,393.53? A. Yes.

MR. PARKER: That is accumulated but not paid?

MR. FRANCIS: Paid. I used the word accumulated. I will put it again. Tell the Commission all about it.

THE WITNESS: The company undertakes to manufacture cream into butter and ice cream and it deducts the cost of manufacture and returns all proceeds to the farmers at the end of the year. Any surplus over and above what has been paid out is divided in the manner in which I have explained, paid on the basis of butter fat to all persons who supply cream. The bonus started in 1921 and we paid out \$4,210 and it has grown now to the point where last year the bonus was \$37,183 divided among 1,900 odd patrons who were shipping cream to the creamery.

MR. PARKER: And the total for the period?

THE WITNESS: For the period from 1921 to 1944 it was \$446,393, which was distributed among the farmers.

BY MR. FRANCIS:

Q. In making the initial payment for the cream what price did you pay? What was the price in relation to the

market price? A. It is generally about the market price. It is very seldom that any creamery pays any higher price. You follow the market. In the summer there is a large surplus of butter and that is put in cold storage. It is worked over and resold at a higher price than could have been obtained in the summer. At times there is such a shortage on the market that the profit arises partly from that.

THE CHAIRMAN: The processing gives the profit?

THE WITNESS: No; the rising price between summer and winter. Processing does not increase the profit.

BY MR. ARNASON:

Q. How important is ice cream as a factor in your operations? A. Financially?

Q. Yes. A. I could not tell you what the percentage amounts to but it is quite a lot.

MR. PARKER: \$100,000 turnover?

THE WITNESS: I haven't the brief here.

BY MR. PARKER:

Q. On the sale of ice cream it is \$100,000. That appears on page 17A. It is about 20 per cent of the amount of butter. A. In the year 1944 it was 60,000 gallons manufactured, the value being \$104,000.

Q. And the year before it was about the same?

A. Now the volume is restricted owing to wartime regulations and you can only manufacture a certain amount on account of sugar and other raw materials.

BY MR. ELLIOTT:

Q. Does your Company pay dividends on share capital?

A. Yes.

Q. At what rate? A. Five at the present time.

Q. How is it decided how much shall be paid back to the farmers and how much shall be used for share capital?

A. There has never been any decision made. There is no agreement. It is an understood fact.

Q. Is the amount of payment on shares determined at the annual meeting? A. Yes. Last year it was \$110.

BY MR. ARNISON:

Q. In your reply to Professor Elliott you said that the rate of dividend paid on shares was 5 per-cent. Has it been higher than that in years gone by? A. Yes.

Q. How high? A. It used to be 8 per cent and we reduced it to 5 per cent by vote of the shareholders.

Q. You said that the amount paid in interest on share capital last year was \$110? A. Yes.

BY MR. VAUGHAN:

Q. It appears that for some years you could have operated as a cooperative but did not do so presumably because certain directors did not wish to incorporate that way? A. I did not mean to leave that inference at all. In the past, while shareholders were not producers they were in favour of the farmer. The history of the organization bears that out. They assisted in the organization for the benefit of the farmers and not for their own benefit. They were very cooperative in that regard. It was because there were not sufficient farmers interested or in a financial position to assist the development of the Company that these other men were instrumental in organizing at the beginning and naturally they helped to carry it along until there were sufficient farmers interested to take hold of it and run it themselves, and that is the attitude they took. It was one of those directors who were not re-elected who

was instrumental in having the others removed so as to strip it to a bare farmers' organization, but there has been no friction.

Q. It was not intended to be a reflection on the directors? A. Absolutely not. They felt, in the report of the nominating committee, that the farmers should run the business themselves and that it would be much better from every point of view to have it **that** way. That is why it was done. It was of their own volition.

BY MR. PARKER:

Q. In addition to the moneys which have been paid to the patrons each year, have you set aside substantial sums by way of reserves? A. A certain amount.

Q. About how much do you hold in reserve at the moment? A. I could not tell you offhand but I think it is in the annual statement.

Q. It is in the statement? A. I can say yes, a substantial amount.

Q. The control of the Company has always been in the hands of the shareholders the same as an ordinary company? A. Yes.

Q. Ordinarily all the earnings of the Company would belong to the shareholders? A. Yes.

Q. Under what authority has the Company undertaken to pay out to persons who are not shareholders, who do not own a dollar's worth of shares, earnings of the company? A. I would say they were only acting as an agency for the farmers rather than as a profit-making concern for shareholders. The shareholders have the power if they wish to claim these dividends legally at any time, which they have never done, and that is the strongest argument that we are

a true cooperative.

Q. Who decided that these amounts should be paid to the patrons -- the directors or the shareholders?

A. The directors, yes, and --

Q. Which? A. I was not on the Board at the beginning when the bonus was first paid and I could not say whether it was the shareholders.

Q. Would the records of the Company show that in the minutes? What bothers me is why any Board of Directors representing 63 shareholders would pay out large sums of money to people who, as far as I can see, have no more right to it than I have. I cannot figure that out.

A. They only consider themselves as an agency acting for these people.

Q. Do they not consider themselves as acting on behalf of the shareholders? They are the ones that put up the money? A. Yes. But the amount of money put up in the first place was not so large. The capital stock was only very small and they did not enter into the thing as a money-making organization but as a gesture to encourage dairying in the county.

Q. They just did it? A. They did it to start development.

Q. In addition to the amounts distributed between 1921 and 1944, \$446,000 odd, how much is the Company holding at the present time which has been allocated to the patrons, unpaid, in round figures? A. I could not tell you.

Q. Would not the statement show it? The accountant advises me he can find nothing in the statement indicating that. Have you paid it all? A. What do you mean?

Q. Surpluses. Have you paid it all back or is it merely allocated? A. There is always a reserve for

Q. I am not talking about reserves but about amounts credited to the 1,900 members according to the amount of butter fat turned in. Have you paid back every dollar at the end of each year, all that is allotted to them?

A. Yes, absolutely.

Q. So that the only thing that is held back is what is set aside for reserve? A. Yes.

Q. Is that shown in the statement, what the reserves are? A. Yes. It is shown on page 17A, \$51,763.02.

Q. Reserve surplus? A. Yes.

Q. Has that been allocated on the books of the Company to the 1,900 patrons in proportion to the amount of cream shipped? A. Individually.

Q. Yes. A. No.

Q. It is simply general reserve? A. It is reserves to take care of replacement and operating expenses.

Q. General reserve held back by the Company?

A. You can call it that; we don't consider it that.

Q. What do you consider it as? A. An emergency fund. Last year we installed a sprinkler system and this year we have to take care of storage because of butter, and the patrons must be paid in the meantime.

Q. You hold these reserves back to meet these things?

A. A certain amount.

Q. A certain amount of what? You held back \$31,000. Is that all represented by improvements in property at the present time or is it cash? A. I could not tell you.

Q. Another thing that bothers me in this statement is this. On that same page you are looking at there is an item in connection with 1944 sales of butter, \$655,000. Was that gross receipt from the sale of butter? A. Yes.

Q. And gross receipts from the sale of ice cream \$104,000? A. Yes.

Q. And there are small items, sale of milk and cream. And you have a loss for the year of \$83.71. I do not understand that. Did you operate at a loss in 1944?

A. According to the statement, yes.

Q. But did you as a matter of fact? Is the statement correct? A. The statement was audited.

Q. You operated at a loss in 1944? A. Yes.

Q. In arriving at that loss, how much did you take out of gross earnings and pay back to the patrons to arrive at that figure? A. I think it was \$37,000 or \$38,000.

Q. You pay twice a month for cream? A. Yes.

Q. You pay the producer what you consider the approximate going price of cream? A. Yes.

Q. Is that right? A. Yes.

Q. Then when you came to the end of the year you were able to pay them an additional \$37,000? A. Yes.

Q. And having paid it you then had a loss of \$83.71. Is that how you arrive at the loss? A. I could not answer that definitely. I did not happen to be on the Board of Directors last year and all I can go by is the financial statement.

Q. Were you Manager? A. No.

Q. Who is? A. Mr. Conway.

Q. Where is the man who can answer the question?

MR. FRANCIS: I have the President here. He has been a director for thirty-five years.

MR. PARKER: You had gross sales of three quarters of a million dollars, and previous years indicate the same thing. the year before you had a loss of \$139, and the year before you had \$7 profit. That seems a peculiar result for big

business like this. You arrive at these results by paying out everything back to the patrons. Is that a fair way to sum it up?

THE WITNESS: We are only acting as an agency for the patrons.

BY MR. PARKER:

Q. I understand that. But your method of operation is such that you pay to your cream producers what you consider the fair market price, equivalent to what other people are paying? A. Yes.

Q. Then you sell the products, ice cream or butter or whatever you have to sell, pay your overhead and so on and set aside certain reserves -- substantial reserves, you say; I don't care how much -- and then whatever is left you pay back to patrons? A. Yes.

Q. With the result that your statements show that for the year's operation, for three years in succession, you operate one year at a profit of \$7 and the other two years at a loss of approximately \$100 each. That is the method of your operation and disposition of, I will not call it earnings or profits but disposition of the receipts you get. Is that a fair summary, in a word, of the manner in which you operate? A. Yes.

THE CHAIRMAN: Have you paid income taxes?

THE WITNESS: One year, I believe.

THE CHAIRMAN: Have you had correspondence with the Department in regard to that question?

THE WITNESS: Yes.

THE CHAIRMAN: What is the present situation?

THE WITNESS: Do you mean in regard to the income tax of the Company?

THE CHAIRMAN: Yes.

THE WITNESS: I could not answer that satisfactorily. Perhaps there are others who could.

THE CHAIRMAN: What is the \$1,035 in 1944 taxes and \$445 in 1945? Is that municipal taxes.

THE WITNESS: Yes, and it may include sales tax on ice cream. I don't know, but I imagine it would.

THE CHAIRMAN: Have you had any recent discussion with the income tax authorities?

THE WITNESS: Last year a man came to discuss the matter with the Board of Directors. I was not on the Board then.

BY MR. PARKER:

Q. You state that the control of the Company had been in the hands of the producer and non-producer alike. Is that right? A. Yes, that is right.

Q. Who exercises the voting authority when you hold a meeting? Is it restricted to the 63 shareholders or is it open to the entire list of patrons? A. It is restricted to the shareholders.

Q. So that the control is actually in the hands of the shareholders? A. Yes.

Q. As in an ordinary Company? A. Yes.

Q. The producer has nothing to say in the control of the operation of the Company? A. No.

Q. Is that correct? A. That is correct in so far as operation is concerned.

Q. Perhaps you are not familiar enough with these statements to answer this, but will you turn to page twelve of the brief. There is an item "reserve surplus" of \$51,763.02. Go back to the year 1943 as shown on page 16 of the brief. Under the same heading the amount is \$51,763.02. It is exactly the same. Then take one more

year, 1942, and again it is the same and 1941 is exactly the same. The year 1940 is skipped in this copy of the brief but 1939 is there, and in the 1939 statement there is no mention of it at all. It remains stationary for the last four years -- 1941, 1942, 1943 and 1944. We have no statement for 1940 and for 1939 there is no reserve surplus. What does that mean? A. I can't explain it. So far as the insertion of these statements is concerned, there was no intention to skip any year. It is simply to illustrate the growth.

Q. We start with 1939 and the item is not in at all. Then 1940 is missing and the last four years remain stationary. Do you know how much is set aside yearly, before you determine how much is paid back to patrons? A. I can't answer that.

The Commission adjourned until 2.00 p. m.

.....

The Commission resumed at 2.00 p. m.

Examination of G. B. Whalen continued:

BY MR. PARKER:

Q. Will you turn to page 10 giving the liability side of the accounts for 1939. Among the liabilities there is capital stock \$2,195. That is the total capital issued?

A. Yes.

Q. Then there is an item "provincial government loan, \$5,000." Has that been paid off? A. No, it is still in force.

Q. Why have you not paid it off? A. The provision in the by-law is that the assets of the Company

cannot be disposed of without the consent of the Minister of Agriculture as long as that loan remains, and we think it advisable to leave it in force.

Q. You pay all the surplus back to the patrons and carry that loan? A. Yes.

Q. There is an item "sundry creditors", \$54,684." What is the nature of that liability? To whom is that owed? A. I presume that would be owed to the farmers for the previous month's cream, or the two previous weeks, whatever the period may be. At the present time they pay twice a month. They pay for two weeks' cream and I presume that is what it is.

Q. And on December 3, 1939, that would represent -- A. I imagine --

Q. I don't want you to imagine things. A. It might be a month. They changed the system of payments since that time. They used to pay monthly and that would probably be a month.

Q. Are you sure that is what it represents, cream payments due the producer? A. I would say it was. I can't say definitely.

Q. What is what you presume? A. Yes.

Q. There is a rest fund of \$16,916. Do you know what that is? A. No.

Q. You don't know whether you still have it? A. No.

Q. Turn to page twelve. There are two items there, capital stock and provincial loan, and you have an item, sundry creditors for December cream, as at the end of December, 1941. Instead of being \$54,684 it is \$7,902. What do you say that represents at the end of that year?

THE CHAIRMAN: It is indicated there; it is for December cream.

BY MR. PARKER:

Q. In 1939 it is headed "sundry creditors", for the whole month or the half month's cream, you presume, and in 1941 it is "sundry creditors for December cream", and it is only \$7 instead of \$54,000. It is out of all proportion to the reserve surplus. The two taken together are \$4,000 more than in 1939. Can you explain that?

A. No. I can't explain it to your satisfaction. I was not on the Board at the time but there was a change in bookkeepers or auditors at that time and a different method of bookkeeping was set up.

Q. Who would know? A. The President of the Company would know.

Q. Turn to page 14, ending December 31, 1942. The same item appears "sundry creditors, \$18,825.54" and the reserve surplus is \$51,000 the same as before. The surplus as at the end of 1941 was \$17,000 odd and there is an item "surplus 1942, \$7." The items taken together are about \$86,000, which would seem to be funds still in the Company's possession. I want to find out what they really represent. Do you see what I mean?

A. Yes.

Q. In 1939 there is an item called "rest fund" and it disappears and you have those three items of sundry creditors \$18,000, and in the other item we have a variation from \$54,000 in one year to \$7,000 and now \$18,000, and instead of the rest fund we have surplus carried forward apparently of \$17,000. A. It might be possible the loan had not been paid out at the time the statement was made up. I am not prepared to say.

That is the only explanation I can give.

Q. Take one more year, 1943: sundry creditors, \$14,000; reserve surplus \$51,000 and surplus as at the end of 1942, \$17,000. Then last year, 1944, the item for sundry creditors was \$21,000, the reserve surplus is \$51,000, and the surplus as at the end of 1943 is practically the same, \$17,000. I want to find out whether the method of operation is such that before these payments are made back to the producers of cream at the end of the year you set aside a certain amount, so much a pound or whatever it would be for general reserves for working capital?

A. My understanding is that this surplus has been built up in the past and carried ahead and at the present time there is no provision made from year to year in addition to that.

Q. Where did you get the funds when you wanted to instal some new plant? You have mentioned some heavy expenditures in the last three or four years? A. Yes.

Q. How was that financed, from these reserves? A. Yes, from reserves.

Q. Does this mean that you have these reserves in these various years on hand in cash or are they represented by physical assets of the plant? A. I would not answer that.

GEORGE T. WHALEN.

President,
The Sussex Cheese and
Butter Company Limited,
having been duly sworn,
testified as follows:

BY MR. FRANCIS:

Q. You are the President of the Sussex Cheese and Butter Company Limited? A. Yes.

Q. How long have you been President? A. About four years.

Q. How long have you been a director of the Company?
A. Thirty years, maybe more.

Q. I want to ask one or two questions. Who decided that the surplus arising from the operation of the business of this Company should be distributed among the patrons as such? A. That was decided at an annual meeting of the shareholders.

THE CHAIRMAN: In what year?

THE WITNESS: Well, I could not just tell you that. When the factory was first organized I was not a shareholder and for a number of years there was no surplus, but I was a shareholder when they started the surplus and started to pay it out and it was discussed at a directors' meeting quite a while back, in 1920 or 1921, and that money should go back to the producers.

BY MR. FRANCIS:

Q. With regard to your income tax experience, what can you tell the Commission that would be of assistance there? A. I don't think we had anything to do with that except that last summer an income tax inspector came from Ottawa and came into the factory and made some inquiries. He was on his way to Saint John and he said he wanted to see us so a few of us came and met him, Mr. Campbell, and he claimed this \$50,000 we had in reserve was taxable. He realized the way the Company was running, on a cooperative basis, but still he claimed it was taxable. We argued the other way but that did not make any difference and he said he would send in his report when he went back to Ottawa and they would report to us. That is all.

Q. You never received an assessment? A. No.

Q. How long has your present auditor been auditor of the

Company? A. Four years.

Q. Is the auditor who was auditing your records prior to that time still alive? A. No, he has been dead for a number of years, then Mr. Black audited for a few years.

BY MR. PETER:

Q. With regard to these reserves which you say the inspector of income tax suggested ought to be taxable, can you tell me how they were accumulated? A. They went back over a long number of years. I don't think that in the last four years there was anything taken off for reserves. The Company thought they would need reserves, a little each year.

Q. Your patronage dividend was a little less than it otherwise would have been? A. Yes.

Q. And that is how the \$51,000 was built up over the years? A. Yes.

Q. On what basis was it held back -- so much a pound? A. I can't answer that.

Q. Who determines how much should be held back? A. It was the opinion of the management of the factory and the Board of Directors.

Q. It was never submitted to the shareholders? A. Not that I know of. It was always brought up at every annual meeting,

Q. It would be in the reports? A. Yes.

Q. Are you reasonably familiar with the minute book of the Company? Are any minute books in existence showing from year to year what should be held back? A. I don't think so.

Q. Are you familiar with these accounts? A. I am not very familiar with them now.

Q. I will show you one. Do you see these annual statements every time they are made up? You are President of the Company and have a reasonable understanding of them. Here are receipts for the year, sale of butter so many pounds, \$655,000, sale of ice cream, \$104,000. In your statement I do not see any disbursements designated as patronage dividends. I was wondering if the payments which are made as patrons' dividends as well as the amount that was paid as cream was delivered, every two weeks, are added together, both appearing in this statement under one heading? A. I could not tell you.

Q. Who would know about that? Who set up this statement, the auditor? A. Yes.

Q. Let us come to the liability side, for 1944. It shows an item owing to sundry creditors of \$21,569.59. What creditors are those and what do you owe them for, do you know? A. Patrons.

Q. Are you in a position to state definitely that is what it is? A. I would not like to state definitely, but I think that is what it is.

Q. Anything else? A. No.

Q. And there is reserve surplus of \$51,000. Then there is an additional item of \$17,000 odd, less capital stock dividend, bringing the amount to \$16,934.22. The Company has these two amounts, reserve surplus \$51,763.02, and surplus as at the end of 1943, \$16,934.22. Is that correct? A. As to that \$16,000, I don't understand what that is.

Q. Is that held in cash, or has that been expended in addition to plant and equipment? A. Part of the time it is

in the bank. You have to pay patrons, and \$50,000 doesn't
do very well.

Q. You use that for the time being and when you
sell the butter the reserve is replaced? A. Yes.

Q. Is that the only working capital this Company
has other than the \$2,195 you have from the sale of shares?

A. I would think so unless they got hard up and borrowed.

Q. I was wondering if this \$13,000 was the same?

A. I could not say.

Q. Who would know about that -- the treasurer, the
bookkeeper? A. Yes. I guess he is not there.

Q. Who is the auditor? A. Ralph Pearson of Sussex.

Q. That is where he keeps his office? A. Yes.

Q. I need not go over these other statements except
to call attention to page sixteen of the brief. We have
the same statements, only in varying amounts, sundry
creditors, \$14,000, reserve surplus exactly the same as the
other. This amount varies? A. Yes.

Q. You don't know anything about this? A. No.

THE CHAIRMAN: Can you remember offhand when it was
you began paying the patronage for cream?

THE WITNESS: We paid them from 1921. I am not sure
whether we paid before.

THE CHAIRMAN: It appears in the statement for 1942 but
does not appear in the 1941 statement. In 1942 you paid
patrons for cream \$399,943, less cream for ice cream
\$17,000 odd, leaving \$454,000. A similar item appears in
1943, \$574,841 but I do not find a corresponding entry in
1941. I was wondering if that was when you began paying
large patronage dividends?

THE WITNESS: No. We paid 3 cents a pound for butter
fat in 1941.

MR. PARKER: I do not see anything to be gained by continuing the examination of the witness. I suggest that the Commission auditor be requested to go to Sussex and make a thorough audit of the Company's affairs on the understanding that the officials will give him access to all the records and supply all information within their power and have them submit to the Commission a copy of everything. Everything may be as regular as clockwork, and there is no suggestion that there has been anything improper.

THE CHAIRMAN: We do not understand the statements. They have not been explained and I think an audit is necessary. You have no objection?

THE WITNESS: Not at all.

MR. FRANCIS: I have instructions to say that they will give such data as they have.

THE CHAIRMAN: I think the inquiry by our auditor should include an inquiry, with the income tax collector, at Saint John as to what has been done with regard to this Company from their point of view.

BY MR. ELLIOTT:

Q. Have you been present at any annual meetings or meetings of the Board of Directors where the policy of paying patronage dividends to customers was discussed?

A. Yes.

Q. What reasons were given for these payments?

A. The shareholders considered that that was money of the producers and not of the shareholders. Of course, some of the shareholders are producers and when it was organized these business people took part, but that surplus is the money of the producers. The raw product was brought in to the factory and manufactured by the Company and the proceeds

should go back to the farmer. That was the understanding and that has been carried out.

Q. Have the shareholders been pretty well unanimous in that opinion? A. They have, yes. There has been a little discussion on it. Some claim that it should belong to the shareholders. In the last ten years it has never been brought up as far as I can remember.

THE CHAIRMAN: Are there any estates involved in the shareholder group?

THE WITNESS: Shareholders?

THE CHAIRMAN: A deceased shareholder might leave an estate. Are there any of these in the Company?

THE WITNESS: There may be some.

THE CHAIRMAN: Were the executors and the representatives of the estates satisfied?

THE WITNESS: Most of the shares would be transferred to somebody else.

THE CHAIRMAN: Have you any idea what your shares were selling at?

THE WITNESS: \$5 a share.

THE CHAIRMAN: Was that the maximum price paid?

THE WITNESS: Yes.

BY MR. ELLIOTT:

Q. How many of your shareholders are usually in actual attendance at meetings? A. It varies. Sometimes there will be quite a fair number and at other times not so many.

Q. What do you mean by a fair number? A. There are sixty odd shareholders and at an annual meeting there would be probably twenty or twenty-five. In years gone by there used to be more but lately apparently there are not so many.

BY MR. VAUGHAN:

Q. That would include shareholder proxies?

A. There are very few proxies.

BY MR. ELLIOTT:

Q. But those included members in actual attendance, the ones you mentioned? A. Yes.

Q. Do most of the shareholders who do not attend give proxies to someone? A. Not very often, sometimes.

Q. When they do, to whom do they give proxies -- the Board of Directors? A. No. It would be some of their own relatives. The father might give it to his son if he did not attend himself.

THE CHAIRMAN: Has there been any occasion on which one or more groups of shareholders tried to get control?

THE WITNESS: No.

BY MR. PARKER:

Q. What brought about the desire to change over? A. We were not a true cooperative.

Q. Did you just find that out now? A. We found it out a long time back but we were never bothered for taxes and we kept on the same way.

THE CHAIRMAN: We thank you for your frankness.

MR. FRANCIS: I am sorry that this case has not been presented in better shape, Mr. Chairman, but it came to my notice only a day or two ago and I must apologize to the Commission.

THE CHAIRMAN: We understand the situation.

MR. PARKER: So far as I am aware, that concludes the business in Moncton.

The Commission thereupon adjourned to meet in Halifax on Monday, March 5, at 10.00 a. m.

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